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**ECONOMIC IMPERIALISM
AND
INTERNATIONAL RELATIONS
DURING THE LAST FIFTY YEARS**



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ECONOMIC IMPERIALISM
AND
INTERNATIONAL RELATIONS
DURING THE LAST FIFTY YEARS

BY
PROFESSOR ACHILLE VIALATE

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INTRODUCTION

ECONOMIC CHANGES IN THE NINETEENTH CENTURY

THE world's political and social equilibrium has been perilously shaken by the Great War, and three years after the armistice economic relations between nations remain profoundly disturbed. Of the many truths that we may learn from this political cataclysm, one is capable of having important results if the nations can only comprehend its meaning,—that is, the force with which the economic solidarity binding the nations together has been evidenced. Germany's declaration of war brought about an acute financial crisis which did not spare even neutral markets. During the war a close economic union prevailed among the members of the two groups of belligerents; without it, they would not have been able to endure so long the heavy burden imposed upon them by hostilities. The difficulty of maintaining close relations with her allies, on account of the closing of the Dardanelles, was one of the causes, and not the least, which brought about Russia's collapse before the end of the struggle. Lastly, when the war ended, a new crisis, extraordinary in the extent of its effects as well as in its intensity, arose to remind the world, too eager to resume its selfish habits, how thoroughly interdependent its interests were. Only through a persevering cooperation will it be possible for the nations of the world to reestablish an economic

equilibrium, without which it will be vain to hope for the restoration of normal conditions in international politics.

This inevitable interdependence of nations is the consequence of the economic changes in the course of the nineteenth century, changes resulting directly from the industrial revolution, which in turn resulted from the inventions in the last years of the century preceding. Railroads, steam navigation, and large-scale industry have in the course of their development determined the conditions of living in the world of today. The obstacles imposed by distance on intercourse between peoples continue to dwindle; human migrations and the exportation of capital have been made easy, lands formerly uncultivated have been put to use, and exchange between nations has become a fundamental element in the economic system of the civilized world. The white race, the initiator of these innovations, has extended its domination over the world, imposing its supremacy over the colored races. The nations that were first to realize the meaning of these changes have been able to contribute the most towards the welfare of their citizens. The increase of wealth has precipitated a democratic movement; at the same time economic organization has grown more and more complex, and consequently more vulnerable.

In the Middle Ages commerce had only a local character; the difficulty of communication compelled populations to constitute narrow economic groups practically independent of one another. The great maritime discoveries of the fifteenth and sixteenth centuries, the full effect of which was to be felt only in

the nineteenth, made possible the development of relations between Europe and Eastern Asia, and opened to the white races a new field of action in America. This trade, which gave birth to keen rivalries, was as yet concerned only with articles of luxury, by reason of the inadequacy of means of transportation. The seventeenth and eighteenth centuries witnessed many wars between the nations, each trying for political supremacy. The underlying cause of these wars was commercial and colonial rivalry; the stake was the possession of a colonial empire in which the mother country meant to enjoy an exclusive commercial monopoly. At the end of the eighteenth century the Physiocrats in France, and David Hume and later Adam Smith in England, advocated the principle of freedom of trade. Free trade triumphed in England before 1850, just at the beginning of the great era of modern industry and of the transformation of the means of transportation. It appeared to its supporters as a movement towards an economic internationalism which would diminish the causes of conflict between nations. This was but a short-lived hope. The nationalist movement of the next half century prevented the spread of free trade. Despite the new inventions which brought them closer together and increased their intercourse, the nations of the world, in order to insure their political independence, were bent upon acquiring economic independence as extensive as possible. This desire gave birth to the ardent economic imperialism that characterized the last quarter of the nineteenth century and the first years of the twentieth, and became the source of new national rivalries.

The industrialization of Western Europe, accentuated from 1880 on, created new problems and needs which influenced foreign policy. The wealth acquired by the nations of Western Europe gave their governments the means to exercise an influence, very powerful at times, over the younger peoples formed by European emigration to the New World, and over those that remained backward in occidental civilization. For the dictum, "Trade follows the flag," was substituted the maxim, "Trade follows capital." The policy of conquest was succeeded by the policy of economic penetration. The part played by the economic factor in international relations assumed greater importance. Diplomacy became closely related to business, and its agents were active agents of commercial expansion. Meanwhile the diplomats endeavored to limit the danger of clashes between rival interests, and new formulas appeared,—“zones of influence,” “spheres of interests,” “financial protectorates.” But economic changes not only increase rivalries between peoples; they also develop between them more and more common interests, which lead to the negotiating of numerous international agreements to regulate such interests. Under the influence of these same transformations, great changes took place in the respective standing of nations in regard to the size of their populations and the amount of their wealth,—which means, in fine, their power. Such changes had their repercussions upon the ententes and the alliances that were concluded during the last years of the nineteenth century and the first of the twentieth.

Before entering upon the study of the influence of

the economic factor upon international relations during the last fifty years, it will not be amiss to recall briefly the economic changes, and more particularly the progress realized in the means of transportation, since the Industrial Revolution at the end of the eighteenth century. The origin of these changes already appears to us very remote, but their influence made itself forcibly felt only after they had attained a considerable degree of development, and that was hardly earlier than the last quarter of the nineteenth century. To the men of the beginning of that century the globe seemed much vaster than to us. The seas were traversed in small wooden sailing ships; the routes were still the same that were discovered at the close of the fifteenth century; the length, risk, and cost of sea voyages limited the frequency and the nature of commercial relations. Western Europe was very nearly self-supporting; it produced upon its territory food-stuffs and raw materials that it needed; its economic régime was agricultural; except in England, which had advanced beyond the other nations, only small industry existed, and in many countries industry was almost entirely in the domestic handicrafts stage. It demanded from tropical lands only one food product, sugar, considered as a luxury, and it imported but a small quantity of cotton. Travel by land was slow and difficult; animal traction alone was used; highways, mostly defective, were scarce in many parts; there were very few canals. It follows that markets were of a purely local character; differences in price, even for commodities of wide consumption, were considerable from one country to another; and the cost of transpor-

tation prevented the circulation of heavy and cheap goods. The population of Europe in the beginning of the nineteenth century is estimated at only 175,000,000; its rate of increase was slow. Emigration from the continent had already begun, but the current was slow and irregular. Only one important colony had been formed, the United States of America. In 1800 the population of the United States numbered only 4,000,000 whites, who, while politically independent, were still in economic dependence upon Europe.

The application of steam to transportation was to bring, in less than three quarters of a century, far-reaching changes in the conditions of living. Navigation was the first to be benefited by the new inventions. As early as 1819 a steam engine had been fitted on a sailing ship as an auxiliary power. In 1838 a regular line of steamers, wooden ships with paddle-wheels, was established between Bristol and New York, reducing the duration of the trip to two weeks. About 1840 opened the era of railway construction; in 1850 there were still in the world but 23,000 miles of railroads, but from that date their construction developed rapidly and twenty years later there were 140,000 miles shared between the nations of Western Europe and the United States. From 1850 steam navigation, too, progressed very fast; iron ships displaced the wooden ships, paddle-wheels were superseded by the screw propeller. Electricity had already begun to revolutionize means of communication. Electric telegraphy replaced the semaphore; and in 1851 the first submarine cable was laid, linking Dover with Calais. Fifteen years later, in 1866, a transatlantic cable united Europe with America.

In 1869 the first transcontinental railroad, joining the shores of the Atlantic with those of the Pacific, was completed; and the same year the Suez Canal was opened to navigation. This new sea route, which reduces by about one quarter the distance between Europe and the Far East, was to be of great importance both economically and politically.

Already the effects of all these new inventions were making themselves forcibly felt. The movement of industrialization, far advanced in England, spread over Belgium, France, and Germany. Emigration was facilitated, a regular current having been established since 1840 from Europe to the New World and to Australia. It was to the United States, however, that emigrants went by preference,—from Ireland and Germany, and to a lesser degree from England, Scotland, and Scandinavia.

About 1875–1880 opened the last period of the economic transformation of the contemporary world; the cumulative effects of previous changes now began to be felt, while new inventions appeared in quick succession. The characteristic feature of this period was, together with the increase in means of transportation and communication, the establishment of close relations between science and industry. The scientist in his laboratory, the manufacturer in his factory no longer ignored each other. The former was now interested in the economic life, he hesitated less to give to his research a directly utilitarian turn. The latter, having learned how imperfect and limited are lessons based merely on practice, came to recognize that collaboration with the scientist pays, with the result that before the close of

the century the laboratory had won its place in the factory. In the older countries the network of railroads grew denser and branched out into new territory; in the newer regions the railroad served as an instrument of colonization, stimulating settlement. In 1905 there were over 525,000 miles of railroads in the world, their length having increased fourfold in the preceding thirty years. More than two-thirds of this mileage belonged to Western Europe and North America. Between 1883 and 1895 four new transcontinental lines were completed in the latter continent. At the same time the Russian Empire built in Asia the Transcaspiian, which, begun in 1883, reached Samarkand five years later, and the Transsiberian, which, begun in 1891, reached Vladivostok in 1902, Port Arthur the year following, and was forthwith extended to Peking.

In navigation progress was just as considerable. From 1875 on, the steamer definitively took the lead over the sailing vessel, then about 1880 the substitution of steel for iron permitted an increase in the size and speed of ships. In 1884 the *Umbria*, a single-screw steel ship, had a tonnage of 8,000 and a speed of 18½ knots; in 1907 the ill-fated *Lusitania* and the *Mauretania*, fitted with four screws and turbines, had a tonnage of 32,500 and a speed of 24 knots. During the same period the regular lines of navigation had multiplied in number. Finally, in August, 1914, the Panama Canal, begun by the French and completed by the Americans, was opened to navigation. It was a new sea route, the importance of which will soon equal that of Suez.

The network of submarine cables, barely begun in

1870, was completed during the next quarter century. A score of cables now link Europe with North America; and a set of coastwise cables girds every continent. At the beginning of the twentieth century two cables were laid in the Pacific, one to link Canada with Australia and the other the United States with China, via Honolulu and Manila.

All parts of the globe then, from the very beginning of this century, have been connected by means of rapid transportation and communication, the usefulness of which has been enlarged to a great degree by lowering of tariff rates. We are now witnessing new progress which the war helped to accelerate; in the wireless, the automobile, the substitution of crude oil for coal as fuel,—of especial importance to navigation,—dirigibles, and aeroplanes.

During the last quarter century the industrialization of Western and Central Europe has continued apace. England and Germany have remained in the lead of this movement, and manufacturing has become predominant in the economic system of these two countries. New industrial discoveries, like the development of means of transportation, create a tendency in the direction of lower prices. Quantity production is inevitable, whence the necessity for wider and wider markets; and as competition in selling becomes ever keener, in the same ratio grows the interest in obtaining raw materials under the most favorable conditions. The obstacle of distance being lessened by the development of means of transportation, markets extend themselves, and in the case of commodities of general consumption, the market has become truly world-wide.

The present system of large-scale industry requires vast capital, leaders of high capacity, a numerous population of intelligent workers trained to cooperate in labor, and therefore a narrow geographical location. Besides, the continuous pursuit of low cost of production carries with it the enlargement of plants and urges the grouping under a single management of complementary industries. Simultaneously, the necessity of eliminating bitter competition, which, if carried too far becomes ruinous, brings about the fusion of concerns engaged in similar industries or a close alliance between them, and as a result there appear in Germany the kartells, in the United States the trusts, in England and France the industrial syndicates,—capitalistic organizations so powerful as to be able, in a more or less formal manner, to effect international agreements. The increasing use of the limited company and of stocks easy of circulation and entailing but limited liability, enables the general public to participate in such large enterprises, which without such participation would be impossible.

The industrialization of Europe has had far-reaching consequences. The first has been a rapid increase of population, due to a growing birth rate coinciding, a little later, with a lowering of the death rate. In 1910 Europe, not including Russia and the Balkan Peninsula, numbered over 280,000,000 inhabitants. This Europe no longer produces the foodstuffs required for its population, and it must import from distant lands a large part of the raw materials for its industries. It procures both these foodstuffs and raw materials from recently settled countries, while, in turn facilitates

their development by lending capital and sending laborers to them. Since 1880 emigration has taken on enormous proportions: from 1880 to 1905 15,000,000 individuals, and in the nine years following, about 10,000,000 more, left Europe. This continuous flood of emigrants originates at present, in the main, from the southern and eastern countries of the continent.

Europe is also actively interested in the development of tropical lands, whence it draws many products, and it finds a new field of action in Africa, the interior of which, so long *terra incognita*, is now explored. During this period also China and Japan opened themselves to European enterprise. Later, at the beginning of the twentieth century, Japan, under the influence of pressing economic conditions, resolutely launched itself in its turn on the way to industrialism, thus causing the problem of the Far East to assume an unexpected complexity. During the second half of the nineteenth century manufacturing industries kept growing rapidly in the United States, but their development has been little realized until lately, when they have taken predominance over agriculture.

The war has brutally arrested a period of continuous progress, the most important result of which was to create between nations so close an economic interdependence that people began to indulge the hope that arrant ambition would hesitate to start a conflict into which all the great powers would find themselves fatally drawn.

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PART I

GROWTH OF INDUSTRIALISM—EXPAN- SION—ENTENTES AND ALLIANCES

CHAPTER I

ECONOMIC LIBERALISM

THE world of the early nineteenth century, on the morrow of the Napoleonic wars, was dominated by Great Britain. She was to preserve this leadership during three quarters of a century; and her political power will continue unshaken as long as the effects are being felt of the considerable economic advance she has made over the other nations. This advance she owes to the fact that the great inventions of the late eighteenth century, whence the large-scale industry of today was to spring, were made on her soil and that she applied them forthwith; and to the advantage secured through her wealth in coal, which about the same time came to be used for the generation of steam, the new motive power. She strengthened her position by her bold transformation of the economic régime common everywhere at that time, in accordance with the tenets of which her commercial relations with the other countries were determined. Based upon the ideas handed down by the mercantilists, its fundamental principle of commercial policy was the necessity, in order to insure the well-being of the nation, of maintaining a favorable balance of trade. This was secured by high protectionist, often prohibitive, customs duties, supplemented by the Navigation Acts and the other features of the colonial system.

The conception which statesmen then held of economic life was all infused with the idea, still extant in too many minds, that the 'commercial advantages of one nation involved a corresponding loss to another nation. The writings of the economists, David Hume and Adam Smith, had given birth in the late eighteenth century to a current of broader ideas. They had insisted upon the utility of exchanges between peoples and upon the advantages of freedom of trade. Under this influence and as early as the late eighteenth century, several commercial treaties providing for conventional tariffs had been concluded between European nations, the best known being the Eden Treaty, negotiated in 1786 between England and France. About the same time, the struggle of the American Colonies to obtain independence showed the political dangers of the colonial system. The wars of the Revolution and of the Napoleonic era reversed this movement toward free trade because the belligerents endeavored to injure each other by mutually impeding their foreign trade. England's sea blockade, however, was no more effective than Napoleon's continental blockade, both belligerents being compelled in order to satisfy their own needs to violate the order they themselves proclaimed.

The fact that England was industrialized early, led to her adoption of free trade. As soon as English manufacturers attained sufficient importance, they protested against the Corn Laws passed in the interest of the old landed aristocracy, and against the import duties laid upon raw materials. The Reform Bill of 1832, by giving representation in Parliament to the new industrial cities and by extending the franchise to the

middle class, put the new manufacturing population in control of Parliament. A committee of the House of Commons in 1840 declared that the customs tariff taxed all classes of the population, but that it hurt particularly the laboring class, for whom the development of trade meant increase of employment and cheap food. In 1846 the Corn Laws were repealed after a vehement campaign led by Cobden and Bright. Three years later, the Navigation Laws suffered the same fate; and in 1852, after the approbation given by the electoral body to the reforms of the preceding decade, Gladstone completed the economic policy inaugurated by Huskisson and continued by Robert Peel. The British tariff was now placed on only a small number of commodities,—the duties on tobacco, spirits, wines, and tea producing nine tenths of the customs revenue. It thus lost all color of protectionism.

“The great change since 1846,” says John Morley, “was that the working class had become strenuous free-traders. They had in earlier times never been really convinced when Cobden and Bright assured them that no fall in wages would follow the promised fall in the price of food. It was the experience of six years that convinced them. England alone had gone unhurt and unsinged through the fiery furnace of 1848, and nobody doubted that the stability of her institutions and the unity of her people were due to the repeal of bad laws, believed to raise the price of bread to the toilers in order to raise rents for territorial idlers.”¹

The initiators of this bold policy thought that such a radical change in economic policy, if it were followed,

¹ John Morley, *The Life of William Ewart Gladstone*, in 3 volumes, Vol. I, p. 425.

as they hoped, by the other nations,² would have important consequences on general politics. It was an argument of Cobden's that free trade demanded a union of nations, animated with a cosmopolitan ideal, as the necessary condition for such pacific exchange of commodities as alone can give the maximum of wealth. "Throughout the long agitation for Free Trade," he said in Manchester in January, 1848, "the most earnest men who cooperated with us were those who constantly advocated Free Trade, not merely on account of the material advantage which it would bring to the community, but for the far loftier motive of securing permanent peace between nations." And later, recalling that Lord Chatham, when wresting Canada from France, declared publicly that he made such conquests with the purpose of acquiring markets for the English of the mother country, he added: "I thank God we live in a time when it is impossible for Englishmen ever to make a war profitable."³ These ideals, influencing English foreign policy at that time, were translated into a determined attitude of non-intervention.

The same ideals profoundly affected English colonial policy during almost a quarter of a century. The impression created by the loss of the American Colonies long continued to influence the minds of Englishmen, who considered ultimate independence the destiny of

² Cobden said at Manchester, January 15, 1846: "I believe that if you abolish the Corn-law honestly, and adopt Free Trade in its simplicity, there will not be a tariff in Europe that will not be changed in less than five years to follow your example." However, Peel distinctly stated that his action rested on the conviction, slowly and surely attained, of the necessity of Free Trade for Great Britain and not upon any anticipation of its becoming the policy of other countries.

³ Cobden to his constituents, at Rochdale, November, 1864. *

all colonies which had been settled by Englishmen. The adoption of free trade would do away with the principal reason that prompted the sacrifices made for the acquisition and the development of such colonies. England would have no more interest in assuming the heavy burden of their security. Sir F. Rogers, later Lord Blachford, who during eleven years, from 1860 to 1871, was permanent Under-secretary of State for the Colonies (an office in which he exerted powerful influence), writing in 1885 said: "I had always believed—and the belief has so confirmed and consolidated itself that I can hardly realize the possibility of anyone seriously thinking the contrary—that the destiny of our colonies is independence; and that in this point of view the function of the Colonial Office is to secure that our connection, while it lasts, shall be as profitable to both parties, and our separation, when it comes, as amicable as possible."⁴ It was the time when "a distinguished liberal statesman had said that the only objection to parting with the Colonies was that without them England would be so strong that she would be dangerous to the rest of the world."⁵ From 1840 to 1872 English policy headed the white colonies toward independence. They were first endowed with representative institutions, later were granted responsible governments and the management of their own financial affairs, without any stipulations restricting their customs policies.

The hope of the initiators of free trade to see England's example followed by the other nations was not

⁴Quoted by Hugh Edwards Egerton, *A Short History of British Colonial Policy*, 4th ed., 1913, p. 367.

⁵A. A. Froude, *Lord Beaconsfield*, 1905, p. 238.

to be realized. The continental countries did not launch forth with the same ardor upon industrialization; their economic development had been delayed by the Napoleonic wars, which had been fought upon their territory. When peace was restored they were concerned with protecting their infant industries against the competition of English industry, already firmly established. In France protectionist sentiment was very powerful; nevertheless a movement toward free trade arose after 1845 when Bastiat undertook a lively campaign in its favor. He was supported, however, by neither capitalists nor workingmen. Emperor Napoleon III, meanwhile, who had spent his years of exile in England and witnessed her rapid economic development, had been deeply impressed with free trade.* On coming to power he proposed to urge France 'into' the same path and he stood for a policy of moderate protection, in opposition to that which still prevailed. The powers granted him by the Constitution allowed him to impose his ideas. The commercial treaty concluded through his will between France and England in 1860 was an act of great importance because it inaugurated an era of liberal commercial policy in continental Europe.

This treaty, which embodied provisions for a tariff, greatly extended the application of the most-favored-nation clause, by expressly providing for its application to duties established by conventional tariffs. The treaty of 1860 was soon followed by similar treaties between France and Belgium, Italy, Switzerland, the German Zollverein, etc. These nations in their turn concluded among themselves commercial treaties in

which figured the same clause accepted with the same interpretation: imperative and unconditional; every advantage concerning trade and navigation, already conceded or later conceded by one of the contracting parties to a third party, was to be enjoyed *ipso facto*, without any condition, by the other party. There was thus established by the aid of the general customs tariff of each country an international conventional tariff, guaranteed for a long enough duration to give security to commercial relations. The United States has always shown itself hostile to this broad interpretation of the most-favored-nation clause. It has adopted it in its treaties but has always interpreted it in a restricted manner. It grants the co-contracting party the advantages conceded to a third "freely if the concession is freely made, or upon allowing the same compensation if the concession is conditional." After the example of the United States, the States of Central and South America have generally adopted this restrictive interpretation.⁶

REACTION OF PROTECTIONISM

This movement in favor of a moderate protection policy at least, if not of free trade, seemed to its supporters the natural consequence of the development of transportation facilities, the importance of which began to be understood. Was not the effect of customs duties to nullify in part the happy results of this development? New inventions tending to reduce more and more the obstacle¹ of distance, was it not illogical

⁶ See Stanley Kuhl Hornbeck, *The Most-favored-nation Clause in Commercial Treaties*; Bulletin of the University of Wisconsin, No. 343, 1910.

on the part of nations to raise barriers on their borders in order to make access to their territory more difficult? The liberal policy inaugurated by the treaty of 1860 was, however, to suffer modification as a consequence of the very development of the means of transportation, which itself brought about a reaction to protection.

From 1840 European emigration assumed real importance. During the next decade three great currents set in: from Ireland, under the influence of the potato famine; from Great Britain, where a far-reaching agricultural revolution was going on,—the abandonment of tillage in favor of live-stock breeding; and from Germany, under the pressure of a political upheaval. This emigration was directed in the beginning almost wholly toward the United States. From 1840 to 1870 it received in this manner six million workers, an addition to the labor supply that was of exceptional assistance in the development of the Ohio and Mississippi valleys. Later a part of the emigrants set out for Canada, for the South American countries situated in the temperate zone, and for Australia. These new countries applied themselves exclusively to agriculture and sent to Europe the surplus of their production in payment for manufactured articles they received from her and for the interest upon the capital advanced by Europe to expedite the construction of their economic equipment. This competition, which grew as a result of improved means of transportation, brought about low prices in agricultural products, cereals in particular, and caused a severe crisis in European agriculture after about 1875. Under such influences the advocates of protection re-

gained in a short time the ground they had lost. The injured interests leagued themselves to secure a privileged situation in the national market. The farmers argued for the political security of the country:—Is it not necessary in case of war to find on one's own soil the means to support the population? Is it wise to run the risk of being cut off from one's source of supply by the enemy? In France and in Germany, where agriculture still held a predominant position in the economic system, such logic was convincing, and an increase of general and conventional customs tariffs was the result of this crisis.

In England the landowners uttered the same complaints, but even at this time they no longer played the principal part in the national life. During the preceding quarter of a century the relative importance of agriculture had steadily dwindled. A new England had risen in the "Black Country," over the coal mines, the basis of her power. This industrial England aimed resolutely at becoming the world's factory that should supply the peoples who were slow in industrial development, either because they were less favored with coal, or because their newness or their remoteness seemed to destine them to agriculture. To these countries was assigned the rôle of providing her with the foodstuffs and raw materials which she needed and which they were able to supply upon the best terms because they specialized in such products. About 1880, under the influence of the economic depression caused by the active competition of those countries in the English markets, were manifested the first symptoms of the revolt against free trade. The National Fair Trade

League was founded in 1881 to start agitation in favor of a modification of the customs policy. It proclaimed the failure of free trade in "its design to insure free markets for English commodities in foreign countries, in exchange for the free admission of their own on the English market," and it asked that import duties should be applied to the products of those foreign countries that would refuse to receive English manufactured articles in free or fair exchange. It asked also that agreements be concluded between the United Kingdom and its colonies or dependencies in order to insure preferential duties on their products in the home markets. To that end the League proposed to levy a slight duty on the foodstuffs imported into England from foreign countries, from which would be exempted those imported from any part of the Empire. This duty was both to favor the colonists and to protect the home farmers. As for raw materials, they would be admitted free, as before.

This plan was received with little enthusiasm; the interests that would suffer from such measures immediately united against it. England had not only become a huge factory, she had also built an unrivaled merchant marine; she was now the European warehouse and market for the great products from overseas which reached her ports before they were distributed among the countries of the Continent; and her powerful banks, owing to the relations of English merchants with the whole world, had made of London the financial capital of the world. The pound sterling had become the international currency *par excellence*, and the "City" was the intermediary through which foreign

nations could most conveniently finance their commercial operations. It was on the London market that great foreign loans were floated, that new countries were sure to find the capital required for the development of their economic equipment. England had become a world power; her activities extended throughout the whole world. She was conscious of an unchallenged primacy, as well in the political as in the economic field. Her navy, not only because of its size but also on account of the naval stations which her successive victories over the other maritime countries had given her in every sea, insured her mastery on the ocean. Her recent intervention in Egypt (1881), wherein France refused to follow her, enabled her to dominate the new Suez sea route, so important to her inasmuch as it secured her relations with India. She did not fear being cut off by her adversaries from the foodstuffs required for her population, which she could no longer find at home save in quantities inadequate to her needs; and the raw materials indispensable to her industry were also safeguarded. Both she wanted to get under the best possible terms in order to preserve her economic supremacy.

To free trade the mass of the English people attributed in great part the wonderful prosperity which allowed them to practise the proud policy of "splendid isolation." Free trade had become a dogma to financiers, to masters of industry, and to workmen. They refused to tamper with it in any way, and at the general elections of 1885 the fair-traders were overwhelmingly defeated.

The proposal suggested by them for a commercial

union between the mother country and the colonies or dependencies, in order to favor an extension of trade within the Empire and to lay the foundation for a political *rapprochement*, had found but few supporters. However, for more than ten years the feeling of detachment from the colonies which had been evinced toward 1850 was being much attenuated. This change of opinion was due to the same cause which had given birth to a group of dissenters from the dogma of free trade,—the development of means of transportation and communication. The first transatlantic cable had brought Canada and the mother country nearer together, although indirectly; in 1872 telegraphic connection was established with Australia. Contacts with the colonies were being multiplied, the increase of speed in ships was lessening the time of passage; the opening of the Suez Canal reduced the distance between England and India. In 1868 a young student, Charles Dilke, upon his return from a visit to the British possessions, undertaken for the completion of his studies, published under the title of *Greater Britain* the result of his observations. He came back amazed by the variety and immensity of the resources of the Empire, and much impressed by the persistent loyalty to the Crown among the populations of the autonomous colonies. Was their secession from the mother country inevitable? In 1875 a liberal statesman, W. E. Forster, publicly protested against the idea.

“Science has brought together the ends of the globe and made possible for a nation to see oceans rolling their waves between several provinces. Why should we alone among the peoples repel this enthusiasm for

nationality, which is one of the most powerful ideas of our times? Why should we shun the gifts of science and neglect the possibilities of union offered us by steam and electricity?"

A few years later, in 1884, the Imperial Federation League was founded to propagate such ideas, to make the population of the United Kingdom aware of that huge Empire whose importance they barely suspected. Then, in 1887, on the occasion of Queen Victoria's jubilee, the Ministers of the great dominions sat, for the first time, with the Ministers of the mother country in a conference where questions of common interest were discussed. It was like a Great Council of the Empire in which the enthusiasts were pleased to see the forerunner of a future Imperial Parliament.

INDUSTRIALIZATION OF CENTRAL AND WESTERN EUROPE

The movement of opinion which was thus being manifested in England about 1875 ushered in a period of economic and political imperialism for the great Western powers, as a consequence both of the economic changes of the early nineteenth century, the effects of which cumulated rapidly, and of a simultaneous development of nationalist sentiment. .

England had been first to launch forth resolutely into industrialism, and she had thus gained a great advance over the other countries. In the second half of the nineteenth century the same revolution spread to some of the nations of continental Europe; France, then later Germany, gave a large place to manufacturing industries. The former, poorly endowed with coal,

chose to apply herself to manufactures yielding products *de luxe* and *demi-luxe*, in which her people were able to exercise their peculiar gifts of cleverness and taste, and in these products she soon acquired advantageous supremacy. In spite of her industrial development, however, France held to a mixed economic system, in which agriculture maintained itself on a par with manufacturing. Germany, because of her wealth of coal, possessed the necessary foundation for the building up of a great industrial power. Shortly after the creation of the Empire, a few bold men of broad vision set out to realize such a purpose. Their enterprise met with full success. By 1880 the number of people engaged in trade and industry had become equal to that employed in agriculture; fifteen years later the industrial population surpassed the agricultural by two million. Following England's example, Germany entrusted her fortune to industry and to commerce. "It is on their shoulders," said Prince von Bülow, "that she raised herself to the rank of a great power." She persevered with the utmost ardor along the same path during the twenty years that followed, and thus acquired great prosperity; but, just as it had happened with England, she unbalanced her economic system. Because of her unfavorable situation the risk she ran in doing so was much greater than that of England.

The industrialization of Central and Western Europe, following upon that of England, so affected the economic régime of the world as to dominate world politics during the last fifty years. The increase of population in these countries has been turned wholly to the gain of industry and the urban element. They

have been compelled to ask for foodstuffs and raw materials from abroad in ever increasing quantities. Such dependence upon foreign lands for commodities of prime necessity is not without peril, while the keen competition engaged in by the industrial countries is bound to affect their political relations.

The industrial evolution of some of the nations of Europe did not dry up the stream of emigration toward the new countries. Facilitated by the lowering of travel rates, emigration rapidly expanded from around 1885, and soon reached huge proportions. But this emigration was no longer from the northern and western countries of Europe, rather from the southern and eastern. British emigration remained at about the same level; that from Germany, which had begun to decrease markedly about 1885, was almost exhausted ten years later. The bulk of emigration was still headed for the United States, but other lands, Canada and Argentina in particular, endeavored to attract this kind of labor in order to further their own development.

Parallel with human emigration was the growing emigration of capital, a necessary complement of the former. The industrial countries had an interest in helping the progress of newer lands; they found there remunerative use for their savings; they urged abundant production of foodstuffs and raw materials that prices might remain low; and they prepared for themselves important markets for the future. While in the eighteenth century and in the first part of the nineteenth commerce held the principal place, now it tended more and more to become subordinate to

finance, whose rôle increased equally in regard to industry, as industrial enterprises grew in importance. When the twentieth century opened, the financiers had acquired a predominant position in the economic system of the great powers and had assumed new importance in international relations.

These economic changes brought about great modifications in the respective powers of the nations and gave birth to new ambitions. England during the first three quarters of the nineteenth century enjoyed uncontested primacy; her world-wide interests led her to detach herself from Europe. She had truly become a great world power, and she was as yet alone in that rôle. Confident in her commercial and industrial prosperity, proud of her wealth, she apprehended no danger to her political structure, reared upon so firm a foundation. In the closing years of the century, however, her splendid assurance began to be shaken; dangerous economic rivalries were asserting themselves, and they threatened to develop into political rivalries. Then appeared the *economic imperialism* that characterized the period preceding the Great War.

CHAPTER II

REVIVAL OF EUROPEAN COLONIAL EXPANSION; THE PARTITION OF AFRICA

THE Congress of Berlin (1878) closed a chapter of European history. From that date the relations between European nations were less affected by questions arising in Europe itself than by the struggle carried on outside of Europe for the possession of colonies and markets. It was no longer on the Rhine or the Danube, but in Tunis, in Egypt, in Nigeria, in Manchuria, that European chancelleries found the center of gravity of their diplomacy.

At that time the great colonial power was England; she owned a rich tropical domain and extensive settlement colonies in the temperate zone, and in order to secure the protection of her trade she commanded the sea routes by means of her many naval stations. Spain, Holland, and Portugal, the earlier great colonial nations, still had important colonial possessions, but they now played from both the economic and the political point of view only a second-rate part. France, after the wars of Napoleon, had mere fragments left from her wonderful colonial empire built up in the sixteenth and seventeenth centuries; but under the Restoration and Napoleon III she set foot in Algiers, Senegal, and Cochin China. Her defeat in 1871 brought sudden

disruption of her prospects. When after a few years she had recuperated her strength, it was in colonial expansion that she sought employment for an activity which did not find ground for exercise in Europe. This determination was at first dictated to her spokesmen by political ambitions; only later did they invoke economic motives. France had no emigration; and her economic equilibrium and the character of her export industries, almost all *de luxe* or *demi-luxe*, did not seem in her present case to call for a vast colonial empire. The movement for expansion was started by three men who gave themselves up to it wholeheartedly,—Jules Ferry, Eugène Etienne, Barthélemy St.-Hilaire. In order to lead it to success they had to overcome strong opposition. In 1881 a French protectorate was proclaimed over Tunis and the Upper Niger; and two years later over Annam. Answering an interpellation concerning the Tonkin enterprise, in 1883, Ferry made as yet but a vague allusion to the economic advantages to be expected therefrom: "It is a question of the future, fifty or a hundred years hence . . . of what will be the inheritance of our children, the bread of our laborers." Soon, however, a doctrine was elaborated which was founded upon the revival of protectionism, which was just gaining favor among almost all the European peoples. France was in need of an outlet for her industries and her capital. Protectionism shut her out of continental Europe and the United States; the colonies were to serve as a "safety valve." They are always "for the wealthy countries a most advantageous investment of capital. . . . France, who is full to overflowing with capital, is materially concerned in this side

of the question. They are an outlet for the products of French industry, for the 'colonial ties' with the mother country suffice since 'economic predominance follows political predominance.' " 7

Bismarck was pleased to see France directing her activities outside Europe. He foresaw chances of a clash with England, which perhaps might compel the French government to make a *rapprochement* with Germany. As for himself, he hesitated a long time before launching his country upon a similar enterprise. The new Empire had no colonies, it is true, but the Chancellor was not convinced of their necessity, and his principal occupation was to consolidate his work in Europe. The change in this respect is concomitant with the adoption by Germany, in 1879, of a protectionist policy. "The repudiation of free trade was a tremendous stimulus to the colonial movement. The time-honored argument, Colonies are an anachronism in an era of cosmopolitanism, are out of spirit with the age, had changed." 8 Already for some years the merchants of Bremen and Hamburg had been asking that the protection of the government be granted the trading posts which they had established in some islands of the Pacific and on the African coast. Emigration was assuming alarming proportions. For the decade 1871-1880 the number of emigrants had risen to 585,000; for the three years 1881-1883 it reached 570,000; and in the absence of German colonies they went to settle in foreign lands. "This stream of emigrants, going out

⁷ Ch. Seignobos, *L'Evolution de la Troisième République (1875-1914)*, Book III, Chap. V.

⁸ Mary Evelyn Townsend, *Origins of Modern German Colonialism, 1871-1885*, p. 75.

with all they have," said Moldenhauer, "furnishing knowledge and skill to our national enemies, is a tax in gold and blood paid by Germany to foreign lands." ⁹

At the close of 1882 the Kolonialverein was founded in Frankfort by men of all parties and of various professions. Its originators still contemplated a rather modest aim:

"Its principal work,"—so ran its constitution,—“is to educate public opinion, . . . to form a central organization for colonial ambitions, . . . not to found colonies, which would involve the government in serious political difficulties; but to confine its efforts to the establishment of small trading stations and to strive for the official protection of the administration.” ¹⁰

Less than two years later the desired goal was reached. In April, 1884, the post founded a few years before by Lüderitz, a merchant of Bremen, at Angra Pequena in Southwest Africa, was placed under the Empire's protection, and almost at the same time the German government annexed territories in the regions of Togo and the Cameroons. Germany in her turn was launching upon the policy of colonial expansion.

Only the African continent still offered to European enterprise unclaimed territories, wide expanses inhabited by backward native populations, whom their isolation had kept out of the western movement. The white nations had so far secured a footing only along the edge of the continent; in the south, England owned

⁹ Quoted by M. E. Townsend, *op. cit.*, p. 92.

¹⁰ See Christian Schefer, *D'une guerre à l'autre; Deuxième période*, Ch. II, "La foussée coloniale, 1883-85."

Cape Colony and Natal, back of which were the Boer Settlements; in the north, she had recently intervened in Egypt, where she was to remain; while France for half a century had been occupying Algiers. On the coast of western Africa lay the French colony of Senegal and the British colonies, Gambia, Sierra Leone, the Gold Coast, and Lagos, which had lost their prosperity with the abolition of the slave trade. Portugal claimed ill-defined rights over the eastern and western coasts and in the southern tropical region. Everywhere else there were only trading stations, most of them British, some German.

The revival of activity which manifested itself about 1880 in favor of colonial enterprise, coincided with the final penetration of the African interior. The sovereign of a small state, Leopold II, King of Belgium, ambitious to attach his name to some great accomplishment, and gifted with the qualities of a great financier, had been the first to perceive the possibilities offered in those remote regions. In 1876 he had founded in Brussels the Association Africaine Internationale, the object of which was to promote the exploration and civilization of the Black Continent. It became three years later the Association Internationale du Congo. The Belgian committee of the Association, the so-called Congo Committee, obtained Stanley's services in order to treat with the natives of those regions and to place them under the authority of the Committee. This was the beginning of a keen rivalry between the Belgian sovereign, on one hand, and, on the other, France, England, and Portugal. The claims of these nations, who invoked the "hinterland doctrine," according to which

the occupation of a stretch of territory along the coast involved the exclusive right of exploitation and ownership of the interior region back of the coastal colony, clashed with each other and embodied many causes of conflict. King Leopold skilfully sought the support of the German government by proposing to ensure freedom of trade in the lands administered by the Association Congolaise, an attractive proposal for Germany, more desirous at that time to secure outlets for the future than to acquire territories. This rivalry was adjusted by an international conference in Berlin at the close of 1884. The final Act (February, 1885) recognized the Congo Free State; it resolved that freedom of trade should be guaranteed to all the nations in the "conventional basin," which embraced the whole of Central Africa from the Atlantic to the Indian Ocean and included extensive British, French, Portuguese, and German territories. The freedom of trade implied that no import duties should be levied for an object other than the expenses of administration, and that the freedom of transportation over rivers, highways, or railroads could not be limited by differential rules or rates. This was a new principle, the recognition of the right to trade under conditions of strict equality for all the nations in an internationalized area. This open-door policy was a movement of reaction against the policy of economic exclusion enforced by all the colonial powers, with the exception of England, by means of preferential customs duties between the home country and her colonies.

The dangerous hinterland doctrine was abolished by the conference. The Berlin Act required that notice of

the occupation of a new territory and of the creation of a protectorate should be given to all the colonial powers. These then sought to secure their own share of the vacant territories in Africa without having to incur the expense of immediate occupation and the eventual risk of dispute over the delimitation of frontiers. This was the object of a series of treaties defining "spheres of influence," by which the signatory powers mutually recognized one another's political rights and economic privileges over lands delimited in the act, without prejudice, of course, to the rights of nations not parties to the treaty. The principal ones of these treaties are: the Anglo-German treaties of 1885, relative to Southwest Africa, and of 1890, which determined the respective spheres of both nations in Eastern Africa, recognized the British protectorate over Zanzibar, and gave the island of Heligoland back to Germany; the Franco-German agreements of 1885, fixing the frontiers of the French Congo and the Cameroons, and of 1894, delimiting their respective spheres of influence in the region of Lake Tchad; finally the Anglo-French treaties of 1890 relative to the lands of the Niger and of Sokoto, and recognizing the French protectorate over Madagascar, and of 1898, concerning the Niger region.

To carry out the occupation and the development of these territories there reappeared the Charter Companies, which had played so important a part in the sixteenth and seventeenth centuries. England created in 1886 the Royal Niger Company, in 1888 the British East Africa Company, in 1889 the British South Africa Chartered Company, which under the leadership of

Cecil Rhodes holds so large a place in the history of South Africa. Germany had already organized in 1885 the German East Africa Company, and Portugal in 1894 formed the Portuguese Mozambique Company. Unlike the former companies that were mostly commercial and enjoyed a monopoly, the new were first and foremost of a political character. Invested with administrative rights, their object was to open up territories through railroad building, farming, and mine prospecting. They had no commercial monopoly.

This revival of colonial expansion had been undertaken originally from political motives and the first move of one nation soon drew in the others, who were unwilling to be left behind in the annexation of the only extensive lands still unclaimed. But it was not long before this revival was influenced by the notion of economic needs, not indeed immediate, but foreseen by statesmen in a more or less proximate future. Industrial development had increased the importance of the tropical lands, certain products of which—rubber and vegetable oils, coffee and cocoa, for example—were being used in ever growing quantities. At the same time the rebirth of the policy of protection came to reinforce these ideas of expansion. Colonial possessions continue to be markets where the home people enjoy a privileged position. The great industrial nations believed it necessary to secure the possession of territories where their masters of industry and merchants should be able to supply themselves under the best conditions, and where could be found outlets both for the utilization of their available capital and for the surplus of their production.

THE ADVENT OF THE UNITED STATES

So far we have not seen the United States appear upon the international stage. In the course of the nineteenth century it had absorbed the major part of the emigration in men and capital from Europe, whose principal purveyor it was in foodstuffs and raw materials, especially cotton, of which it possessed all but a monopoly. Moreover, its increasing population had made it a good market for the products of the European industrial nations.

Its development, in spite of the temporary setback due to the Civil War, had been wonderful. The activity of the Americans had been mostly applied to the settlement and development of the extensive territories along the valleys of the Ohio, Mississippi, and Missouri. This conquest of the soil, a harsh, relentless struggle to subdue untamed nature, requiring both stubborn tenacity and unshakable optimism, is a splendid page of history, a true epic which will surely find some day its national singer. In the decade 1880-1890 the westward progression had reached the limit of the arable lands. The frontier of colonization, after having been for two centuries in perpetual advance, was now fixed, arable lands were all appropriated, and the call of the West was no longer the magnetic allurements which so many generations had obeyed.

The importance of agriculture in American life (in 1890 the rural population still amounted to 64 per cent of the total population) had masked during this period the development of manufacturing industries. These, however, were progressing at a great rate. They

endeavored to satisfy the needs of an ever growing national market. Within twenty years, from 1870 to 1889, the population had grown from 38,500,000 to 63,000,000. During this period the number of immigrants, mostly adults in their full strength, had been 6,000,000. The check of further westward expansion and the progress of industry suggested an ambitious plan, the realization of which was undertaken by James G. Blaine. The idea of an American policy uniting the efforts of the peoples of the United States and of Central and South America in order to build up a "great American system, superior to the control of all transatlantic force or influence, and able to dictate the terms of the connection between the old and the new world," had been pointed out by Alexander Hamilton as one of the great possible aims of the young United States, "bound together in a strict and indissoluble Union."¹¹ Forty years later Henry Clay again took up the idea, and in order to put it into effect he obtained permission from President John Quincy Adams, in the face of much opposition, to send American delegates to the 'Panama Conference (1826). These delegates arrived too late to participate in the conference, which, by the way, miscarried. By 1884, however, Blaine thought the time had come to realize this policy. In that year a commission was appointed to find out "the best means to secure closer international and commercial relations between the United States and the Central and South American countries." The commissioners returned convinced that the United States could develop its commercial relations with

¹¹ *The Federalist*, No. 11.

Latin America without great difficulty and to great advantage. Public opinion began to take an interest in these plans of "American policy." It felt vaguely that the development of commercial relations was the surest means of later on tightening political bonds, while in their utterances politicians showed in a grandiose vision the promise of the United States becoming some day, by reason of its power and wealth, the supreme arbiter and the predominating member of a vast confederation that encompassed the whole of the New World. In October, 1889, an International American Conference was gathered in Washington with Blaine, then Secretary of State, presiding. He sought to conclude a political agreement to secure through the practice of arbitration the advent of an era of peace in the New World, the southern part of which was still frequently disturbed by frontier feuds; and he wished to insure the strength of this union by rearing it upon a mass of common interests, through the formation of a customs union in which the United States, supplanting Europe, should become the industrial provider of the agricultural nations in Latin America. The Washington Conference had only meager results. The United States had not as yet sufficient economic means to undertake such ambitious projects. American industry, unequal even to the needs of the home market, was able to export only a very limited number of commodities, in a desultory manner at that. The South American republics were stocked with European capital, English for the most part; as a result, there set in natural commercial currents to pay for the interest upon their borrowings. Being itself dependent upon

Europe for the capital required for its own development, the United States could not supplant her in the rôle of stockholder for those countries. Furthermore, the want of direct communications (they were almost nonexistent) by land and by sea between the two Americas constituted a serious obstacle, while the fact that a number of agricultural products exported from the temperate lands of South America happened to be of the same kind as those exported from the United States curtailed the possibilities of mutual relations. The only lasting result of the conference, therefore, was the creation of the International Union of the American Republics, through the agency of which has been preserved the custom of calling together Pan-American conferences.

Seeing the failure of his plan for a customs union, Blaine wished at least to have treaties of commercial reciprocity concluded between the United States and the South American nations. He met with opposition right in his own country from the protectionists, who were working at the time on the draft of a new tariff, the well-known McKinley Bill, a master work of excessive protection, which was, however, to be outdone a few years later. In order to make reciprocity treaties one must be ready to offer a few advantages to those with whom one wishes to negotiate. The bill then under discussion did not leave to the American government any possibility of concession. Through his insistence Blaine obtained the insertion of a clause permitting the levy of import duties upon a few commodities admitted free, in case the country of origin should impose upon American manufactured articles too high

a rate. These commodities were sugar, coffee, hides, and wool. The narrow views of the protectionists compelled a resort to threats of reprisals in order to reach commercial agreements. Under this reciprocity arrangement some treaties were signed, but only a few, and they were short-lived.

Less than ten years after the Conference of 1889, exceptional circumstances made it appear for a time that the United States had reached the period of regular industrial expansion and that it was nearing the moment when, like the old nations of Europe, it was going to export capital. The three years following the acute crisis of 1893 had been years of great depression. The presidential election of 1896, in which the supporters of the gold standard were victorious, brought back confidence to financial circles. The next year, when crop failure in Europe coincided with a good crop in the United States, was a year of big profits for Western farmers. Concurrently, American industry, which had not yet recovered and was producing for very low prices, was able to take advantage of a period of soaring prices in Europe, where demand was such that English and German manufacturers could not cope with it. The Americans took up the pressing orders which the former were unable to fill. An unprecedented boom resulted for industry in the United States. From 1893 to 1899 the exports of manufactured articles doubled, passing from \$158,000,000 to \$339,000,000, and in 1900 it increased again by \$100,000,000. American manufactured goods thus made their appearance even upon the markets of Europe.¹²

¹²Alexander Dana Noyes, *Forty Years of American Finance*, 2d ed., 1909, Chap. XI. • •

European manufacturers and statesmen were really frightened for a time. They felt uneasy at the suddenness and the importance of this exportation, at the audacity with which the financiers from over the ocean proceeded to pool concerns in the fundamental industries. The creation of the Steel Trust, then of the Shipping Trust, capped the climax of their fears. "The American Peril," "the American Invasion" held for some time a good deal of space in their newspapers and periodicals. As early as the end of 1897, Count Goluchowsky, speaking of the industrialization of the United States, said: "The twentieth century heralds itself for Europe as a century of struggle for existence in the political and commercial domain, and her peoples must unite if they wish to defend themselves with success." In 1900, the *Statist* of London wrote: "The capacity of the United States to compete in foreign markets with the most advanced nations of Europe has been made superabundantly manifest"; and in 1902 Mr. Luzzatti proposed to convene a European customs conference with the view of studying a policy of common defense against the United States. In the United States this situation created feeling nothing short of frenzy. In the introduction to the *Review of the World's Commerce for 1898*, an official publication, the author, after showing that the United States was fast making itself industrially independent, added: "The industries of the United States have reached the point where it seems not only practical but comparatively easy for them to supply a considerable portion of the world in addition to the home market." The same year the president of the American Bankers' Association, in

his inaugural address at the annual convention of the Association, exclaimed in a tone of triumph: "We hold now three of the winning cards in the game for commercial greatness, to wit, iron, steel, and coal. We have long been the granary of the world, we now aspire to be its workshop, then we want to be its clearing house."

This movement of industrial expansion coincided with the trouble with Spain on account of Cuba. The state of mind engendered by expansion contributed certainly to the uncompromising attitude of public opinion in this circumstance, and added to the difficulties of the administration which endeavored to solve peacefully this delicate question. The victorious United States came out of the war a colonial power. Even when war had become unavoidable, there had as yet been no set idea of territorial expansion; but economic prosperity peculiarly favored, during the course of military operations, the sudden birth of a genuine imperialistic state of mind. Upon the restoration of peace, the United States was established in Hawaii, Guam, and the Philippines in the Pacific; and in Porto Rico in the Caribbean Sea, where they had besides imposed their protectorate over Cuba with the right to create a naval base at Guantanamo.

The annexation of Hawaii had been asked for long before by the representatives of American interests who had promoted the cultivation of sugar in those islands and who wanted to gain free admittance to the American market for their product. Hitherto they had been unable to overcome the hostility of public opinion to any extra-continental extension of territory. The war

furnished them the occasion to gain their point. The Hawaiian Islands are by their geographical situation a protective outpost for the American coast on the Pacific; therefore, from the very first of the hostilities national security had required their annexation.

The acquisition of the Philippines was an entirely unexpected consequence of the war. "At the beginning of the war," says Professor Paul S. Reinsch, "there was perhaps not a soul in the whole Republic who so much as thought of the possibility of his nation's becoming a sovereign power in the Orient."¹³ Admiral Dewey's victory at Manila created an unforeseen situation. The Sino-Japanese war had given a new aspect to the Far East question; the break-up of China seemed near. Americans looked upon the Chinese market as a natural field for commercial expansion; were they about to be shut out of it? Their traditional policy forbade their seizing a portion of Chinese territory even under the euphemism of "sphere of influence"; public opinion would not stand for that. The occupation of the Philippines supplied a strategic base whence the American government might bring influence to bear on the policy of European nations toward China. This occupation presented economic advantages also,—might not Manila become a commercial emporium rivaling Hong Kong some day, and were not the Philippines a possible field of activity opening up interesting opportunities to American capitalists and merchants? These reasons justified the annexation of the Archipelago. In his instructions to the American commissioners charged with the negotiation of peace, President McKinley

¹³ Paul S. Reinsch, *World Politics*, p. 64.

insisted, on the other hand, upon the liberal economic policy which the United States intended to follow: "It is just to use every legitimate means for the enlargement of American trade; but we seek no advantages in the Orient which are not common to all. Asking only the open door for ourselves, we are ready to accord the open door to others. The commercial opportunity which is naturally and inevitably associated with this new opening depends less on large territorial possession than upon an adequate commercial basis and upon broad and equal privileges." In spite of these resolves the United States was not long in extending its own régime of protection to its colonial dependencies.

An American, Mr. Walter E. Weyl, has ably set forth the psychological conditions due to the industrial boom in which the population found itself at the time of the war:

"Psychologically, also, we were ripe for any imperialistic venture, for we enormously exaggerated the progress we had made toward industrialization, and were thinking in terms of Europe. We suddenly believed that we, too, were overfilled with capital and compelled to find an outlet for investments and trade. Innumerable editorials appeared, presenting the arguments for imperialism that had been urged *ad nauseam* in Europe. We could not resist, it was argued, the ubiquitous economic tendency toward expansion."¹⁴

This state of mind, together with the American military success, also decided the question of the interocean canal. In 1850 the United States had concluded a

¹⁴Walter E. Weyl, *American World Policies*, 1917, p. 47.

treaty with England, the Clayton-Bulwer Treaty, which provided for the building of a canal across Nicaragua. The principle of the neutrality of this international waterway was admitted, and the signatory powers were to invite the other nations to join them in the guarantee of its neutrality. On the morrow of the war against Spain, the building of the canal appeared necessary, but opinion was completely modified as to its status. President McKinley championed the new ideas in his annual message to Congress of December, 1898:

"The construction of such a maritime highway is now more than ever indispensable to that intimate and ready intercommunication between our eastern and western seaboard demanded by the annexation of the Hawaiian Islands and the prospective expansion of our influence and commerce in the Pacific, and . . . our national policy now more imperatively than ever calls for its control by this government."

The Hay-Pauncefote Treaty, concluded in 1901, gave satisfaction to the United States. England accepted the abrogation of the treaty of 1850; the principle of the neutralization of the canal was maintained, but instead of a collective guarantee, the United States assumed the responsibility, simply promising that "the canal shall be free and open to the vessels of commerce and of war of all nations." England recognized its right to build, administer, and police it. The opportune revolution of Panama (November, 1903) made it possible to build the canal on American territory, and since its completion military works have been undertaken at both ends to insure its security.

The Hay-Pauncefote Treaty, which roused no protests on the part of any European power, is an important event in the history of the United States; it marks the tacit acquiescence of Europe to its pretensions of hegemony over the lands bathed by the waters of the Gulf of Mexico and of the Caribbean Sea.

The sentiments of economic imperialism that had drawn the United States into a policy of extra-continental expansion were fostered for a while by a period of continuous prosperity. The time even seemed to have come when it had turned from borrowing to lending. England had to call upon the New York market for the big loans made necessary by the baffling war she was waging in South Africa. From 1900 to 1902 American banks absorbed over two hundred million dollars of bonds, and—a novelty in financial history—these banks treated directly with the British Treasury. In 1900 the German government sold in New York twenty million dollars in bonds. Then at the time of the Russo-Japanese war, Japan sold in the United States an important portion of her loan.¹⁵ Mr. John Hay, Secretary of State, interpreted in 1902 the state of mind prevailing in business circles when in a moment of enthusiasm he exclaimed: "The 'debtor nation' has become the chief creditor nation. The financial center of the world, which required thousands of years to journey from the Euphrates to the Thames and the Seine, seems passing to the Hudson between daybreak and dark."¹⁶

¹⁵ Alex. D. Noyes; *op. cit.*, pp. 282, 321.

¹⁶ *Eulogy of President McKinley*, Feb. 27, 1902. See *Congressional Record*, Fifty-seventh Congress, First Session, p. 2201.

Such a situation, due to circumstances and to fortunate coincidences, could not but be ephemeral. The financial crisis of 1907 was a rude awakening. The Americans were unable to keep the foreign loans negotiated in New York during the years of prosperity. The United States was not yet ripe for a policy of economic imperialism. It applied again the best of its efforts to the development of its natural wealth, hardly touched as yet, and again had to call upon European capital.¹⁷ The lately acquired colonial possessions ceased to interest the public. Had it not been for the Chinese question and the fear lest another power should occupy the islands, the Americans would gladly have granted independence to the Philippines, for the islands had not realized the hopes once entertained from the commercial point of view. The ever increasing political domination exercised by the people of the Mississippi basin over the policies of the Union contributed to increase the national isolation in adopting an active foreign policy.

THE EXPANSION OF GERMANY

When Bismarck decided in 1883 to enter Germany in the race for colonial expansion, she was just beginning her transformation from an agricultural to an industrial nation. The agricultural element still dictated the orientation of her general policies. This situation explains the Chancellor's attitude at the Berlin Conference in 1885,—he favored the birth of the Free State and required the adoption of the principle of

¹⁷ Alex. D. Noyes, *Financial Chapters of the War*, 1916, p. 202.

commercial freedom in the conventional basin of the Congo. Without involving his country in colonial ventures, he secured for German traders access to territories where they would not run the risk of clashing with stronger competitors. During the next decade the trend toward industrialization continued its course with rapidity, and in 1895 the equilibrium in the national economic system between agriculture and manufacture was lost. The number of workers devoting themselves to agriculture had remained stationary from 1882 to 1895; but in the former year it represented 43.4 per cent of the total population, whereas in the latter it stood for only 37.5 per cent. Though exporting grain during the early years of the Empire, Germany had now become a regular importer. She was no longer able to feed her population, which had risen from 42,000,000 in 1875 to 52,000,000 in 1895, an increase wholly absorbed by industry and trade. During the time she developed industrially she created a mercantile marine that was soon to rank second only to England's.

Industry and trade now predominated over agriculture in government councils. New ambitions asserted themselves. In securing the mastery of Germany in continental Europe, Bismarck had paved the way for his successors toward the policy in which he hesitated to engage himself. Count von Caprivi, yielding to the insistence of the manufacturers, negotiated in 1891 a series of commercial treaties to secure outlets for their excess production; and notwithstanding the protests of the agrarians, he made concessions on the import duties upon farm products entering Germany in order

to obtain advantages for German manufactured articles in foreign markets. The young Emperor proclaimed that "the future of Germany is upon the water," and he undertook to create a navy capable of protecting the enormous interests which the Empire committed to the ocean at the time, and of upholding German pretensions in possible future conflicts with other nations. This navy, the building of which was to be vigorously pushed so as to constitute "a power that the strongest enemy would not attack without hesitation,"¹⁸ was always to lack the requisite naval bases to insure its freedom of action on the seas. The Germans had come too late, and they bitterly regretted that they had delayed so long in applying their endeavors outside of Europe.

In 1897, however, Germany succeeded in setting foot in China, where she procured the cession on lease of the port of Kiaochow. Later, after the Spanish-American war, she purchased from Spain the archipelagoes of the Caroline and the Ladrone islands; then she settled with England and the United States the question of Samoa. At the same time she broached an agreement with England with the view of imposing upon Portugal the virtual cession of its colonies in continental Africa, while letting the sovereignty remain with the latter. England was to get the territories south of the Zambezi, while Germany was to have the right of exploiting the northern part of Mozambique and the region of Mosamedes in Angola. This would have meant an important extension of her domain in the tropical zone. The

¹⁸ Prince Bernhard von Bülow, *Imperial Germany*, English translation, 1914, p. 36.

South African war broke off the negotiations. England needed to operate with complete freedom in Delagoa Bay, and she dreaded to wound the pride of the Portuguese.¹⁹ Shortly after, as a result of the Kaiser's trip to Palestine and Constantinople, came the beginning of German enterprises in the Near East and the project of the Bagdad railroad. Henceforth Germany aspired to play the part of a great world power, not merely confining herself to Europe as heretofore.

Her industrialization, which continued with extraordinary rapidity, had driven her in her turn into the field of economic imperialism. Owing to her important coal fields and to the wealth of iron ore gained through her victory over France, she had been able to develop a powerful steel industry. She was the first to realize fully the modern conception of great industry as utilizing scientific investigations and discoveries in the perfection of industrial processes. "It is in the laboratories of Essen, of Berlin, of Gross Lichterfelde," said an Englishman, Sir Robert Hadfield, "that Germany wins her industrial victories. It is the brains of the universities and technical schools that make her powerful in the markets of the world." Her scientists gave her the lead over other nations in two new industries,—the chemical and the electrical.

A home market that keeps on growing gives to industry a solid foundation. The excess of births over deaths was 800,000 to 900,000 a year, and as emigration had almost completely ceased since 1896 the population in 1910 exceeded 66,000,000. This increase went wholly

¹⁹ A. Debidour, *Histoire Diplomatique de l'Europe depuis le Congrès de Berlin jusqu'à nos jours; première partie, 1878-1904*, p. 263.

to the advantage of industry. Agriculture was now compelled at harvest time to call upon foreign labor.

"Germany's rise," wrote Paul Rohrbach, "has been favored by the fact that the political and economic union of Germany coincided with the most wonderful technical progress that humanity had ever seen. And this technique, founded on the methodical knowledge of nature, corresponded exactly in a most brilliant manner with one of the traits of our national temperament—exact and laborious energy." ²⁰

Another trait of national character also has helped the Germans in this evolution,—their aptitude for association. They resolutely launched into quantity production in order to bring down the cost to a minimum; then, in order to contend more efficiently on foreign markets, they formed kartells and syndicates, which, under customs protection insuring their monopoly of the home market, elaborated a policy of vast aims and inaugurated a commercial strategy against which their competitors, not so solidly grouped, found themselves powerless. More so than in other countries, banking placed itself at the service of this movement. When the Empire was created, Germany was poor; her industrial development brought well-being to the masses and wealth to the heads of concerns, but the formation of capital was not quick enough for the ambitious plans which the latter wished to carry out. Then the great commercial banks resolutely broke with the traditional practice of the English joint-stock banks and of the loan banks of the French. The latter make it their

²⁰ Article in *Jugend*, August, 1912; quoted by Henri Hauser, *Germany's Commercial Grip on the World*. Translated by Manfred Emanuel, 1918, p. 9.

first concern to keep their assets liquid; they serve trade and industry by discounting commercial paper which normally is self-liquidating but which in case of necessity they can themselves get discounted at the central bank of issue. They leave to other firms, the investment banks, the business of furnishing industry with the long-time credits it needs. The German commercial banks, with the desire to aid industry ever in need of more capital, did not hesitate to adopt the two rôles and to tie up in long-time investments an important part of their resources. The profit resulting from this operation made them overlook its very serious risks.

At the beginning of the twentieth century Germany had truly become an industrial power; she could not retrace her steps; should she attempt it, she would provoke a revolution. What would come of that growing population living the life of the factory and having no longer any bond with the soil? "The whole development of Germany," wrote Steinberg in 1902, "is directed, from the natural course of things, toward the industrial and exporting state." The national economic system was out of equilibrium, a condition of affairs which now gave concern to clear-sighted politicians. They found it necessary to go to the help of agriculture. It was undoubtedly progressing, for it too had given up traditional methods and was seeking and following the advice of scientists, but what was such progress in comparison with that of manufacture? Prince von Bülow, who was Chancellor at the time when the treaties of 1891-1892 expired, had to adopt a commercial policy. He wrote:

"I was persuaded that vigorous agriculture is necessary for us from the economic, but, above all, from the national and social points of view, just because the industrialization of Germany continues to progress steadily. . . . But by material means alone a nation can neither maintain its place in the world nor advance it. Physical, moral, and mental health are still the greatest national riches. . . . A state is not a commercial company . . . it must subordinate its economic policy to national policy as a whole, must act so that not only the present industrial welfare of the nation is increased, but that, above all, the future sound development of the nation is ensured. . . . Economic policy must foster peaceful development; but it must keep in view the possibility of war, and, for this reason, above all, must be agrarian in the best sense of the word. The protection of agriculture is a national duty of great importance. . . . As in time of war industry is dependent on the buying power of agriculture, the productive power of agriculture is a vital question for the whole nation." ²¹

The tariff reform of 1902, made under his direction, was governed by such ideas; he wished to help agriculture in order to bring the Empire nearer a state of economic equilibrium. Manufacturers had to accept an increase of some duties meant to protect farm products; as a compensation, the protection they themselves enjoyed was increased, and the commercial treaties with a conventional tariff were renewed. The trend toward industrialization was not thereby interrupted, and industry continued to work more and more for exportation.

"The necessity for these exports of manufactured products," says C. Riesser, "is growing in proportion to

²¹ Prince B. von Bülow, *op. cit.*, p. 214 *et seq.*

the increasing deficiency in the supply of domestic foodstuffs and raw materials. Under present conditions, therefore, especially in view of the constantly increasing population, our industrial export policy cannot be said to have been a device arbitrarily adopted, and therefore one eventually to be abandoned. Nor is it an end in itself, but on the contrary a means, indispensable to our entire economic existence, of paying to a very material extent for our absolutely necessary imports.”²²

German emigrants, who generally remained grouped together, constituted in the countries where they were settled excellent *points d'appui* from which to launch her commercial enterprises. She directed her endeavors more particularly to the markets of Latin America; perhaps in certain circles there was hope for a time of setting foot politically in the region of the South American temperate zone, for in Brazil in the state of Rio Grande do Sul some two hundred thousand non-assimilated Germans were settled. German industry and banking were active also in the countries of Central and Southern Europe. Here their object was not only economic but decidedly political.

“The heel of Achilles in the Triple Alliance,” said Count Apponyi, “is its economic policy. . . . If the edifice of the Triple Alliance is to be made enduring, if this, the firmest of all guarantees of European peace, is to abide, the political pillars which alone support it today and which may in time collapse, must be supplemented by economic pillars.”²³

²² Dr. J. Riesser, *The German Great Banks and their Concentration*, English translation, p. 528.

²³ Quoted in *Le Pangermanisme Continental sous Guillaume II, 1888 à 1914*; a collection of documents published under the editorship of Prof. Charles Andler, p. xxxiv.

The Germans understood this and they endeavored to remedy this weakness. Their customs policy was based on this idea. They wanted to control the economic development of their allies, who were far behind them and who lacked capital as well as technical personnel. They sent them both, in the hope of remunerative returns of course, but also with the conviction that if they played an important part in the great enterprises of those countries, they would bind them to Germany by financial interests difficult to sever and thus they would acquire the means of influencing their policy. The particular object of their efforts, whose pledge never seemed reliable to them, was Italy.²⁴

Germany was also deeply interested in the Balkan States and the Near East. In the Near East the concession for the construction of a railroad from the Bosphorus to Bagdad promised by the Sultan to the Kaiser in 1898 had aroused great hopes. Prince von Bülow wrote of it:

"This threw open to German influence and German enterprise a field of activity between the Mediterranean Sea and the Persian Gulf, on the rivers Euphrates and Tigris, and along their banks; this land can hardly be surpassed for fertility and for its great possibilities of development in the future. If one can speak of boundless prospects anywhere, it is in Mesopotamia."²⁵

New Germany, however, was mortified because of her inability to create a vast colonial empire for herself. She felt that in default of such an empire, her economic

²⁴ See Giovanni Preziosi, *La Germania alla conquista dell' Italia*, translated in French.

²⁵ Prince B. von Bülow, *op. cit.*, p. 98.

prosperity would never be secure, and this deficiency also wounded her vanity as a world power. In the world's situation at the opening of the twentieth century she knew that she could not satisfy her desire unless there came a general political readjustment. Should such a crisis ever arise, she trusted her army and navy to enable her to take advantage of it. It was above all toward the African continent that she turned her hopes.

"In Africa," wrote Paul Rohrbach in 1902, "German possessions may yet be vastly extended, and this will surely be done, possibly soon and at any rate sometime. It is not our intention to rob anybody, but one need not be a prophet, as matters are today, to foretell that the final drawing of lines between the African colonies is yet to come, and that it will be our duty to create a much larger African Germany before this time arrives." ²⁰

THE IMPERIALISTIC TREND IN ENGLAND

At the general elections of 1885 the English people had pledged again their faith to free trade, and with the desire to keep it untouched they had rejected the plan of commercial union between the home country and the colonies suggested by the supporters of the Fair Trade League. The trend of colonial expansion which developed during the last years of the nineteenth century, and the advent of Germany and later of the United States as industrial competitors, however,

²⁰ Paul Rohrbach, *Der deutsche Gedanke in der Welt*, translated by Dr. Edm. von Mach, p. 134.

infused new strength into the campaign against free trade and into the ideas of imperial federation.

England did not remain behind in the annexation policy that became general during the score of years after 1880. During this brief period she added to her empire, which had already an extent of eight million square miles and numbered 248,000,000 inhabitants, more than three and one half million square miles and 57,000,000 subjects. Almost all these new acquisitions were in Africa, the remainder in Asia. Troubles in Egypt had in 1882 provoked her intervention. France, after participating in a naval demonstration, had declined to take part in military action and withdrew. The intervention was changed into an occupation which, despite the oft-repeated promise of evacuation, became permanent. Once established in Egypt, England helped the latter to reconquer revolted Sudan. The occupation of Egypt secured for the English the mastery over the Suez Canal, which they regarded as an imperial line of communication. England thus came into possession of the Canal without having to modify the international engagements concerning it. A few years earlier, in 1875, the purchase by the English government of the shares of the Suez Canal owned by the Khedive had given her a predominant interest in the enterprise and allowed her to have representatives on the Board of Control.

In the last years of the nineteenth century, English industry and trade voiced bitter complaints first against German competition and soon after against American. Such competition manifested itself in the neutral mar-

kets, then in the English colonies, and finally in the home market itself.

"Our industrial supremacy," wrote an English commercial attaché, in a study of English trade from 1885 to 1895, "is no longer the proven fact it used to be. We are no longer in the enviable situation of former times, when we never met in the markets of the world any serious competitors in the sale of our manufactured products. The good old times are over; the evolution and progress of all the nations has forced us to face new conditions."²⁷

In 1902 an official document devoted to a comparative study of the economic development of Great Britain and of her principal competitors, concluded in this manner: •

"If peace is not disturbed, Germany and the United States will certainly continue their industrial and commercial development. The competition which these countries are offering us in the neutral markets, and even in our home market, unless we prove active, will become more and more serious."²⁸

This situation grated upon English self-esteem and disturbed public opinion. It led to a flood of studies on the importance and the causes of this relative decline. The supporters of fair trade bestirred themselves and began a new campaign in behalf of a change in the trade policy: The publicists and economists who had

²⁷ William S. H. Gastrell, *Our Trade in the World in Relation to Foreign Competition, 1885 to 1895*, p. 2.

²⁸ Memorandum by A. E. Bateman, 1902, *Comparative Statistics of Population, Industry, and Commerce*.

sounded the alarm ascribed to protection the rapid and unusual development of German and American industry.

“Behind the wall of protection other nations have learned to manufacture our own specialties as well as we and have thus brought about this great change in the industrial world that has come to pass since the United Kingdom engaged in the policy of free trade, and which begins to prove that unshakable adherence to this policy, come to be a part of the English Gospel, is a mistake.”²⁹

Free trade at the dawn of the twentieth century was no longer considered an inviolable and sacred principle. Already legislative measures had begun to interfere with it, and Sir Robert Giffen, himself a liberal, bringing up to date a classic work by Lord Farrer, *The State in its Relation to Trade*, criticized somewhat the dogmatism of the author and declared that it is just to admit that many things may be done from political motives that could not meet with approbation if economic questions alone were concerned.

Under such circumstances the English found comfort in their immense empire, which extended over all latitudes, produced all that man might desire, and insured them important markets. The policy of Imperial Federation rapidly gained ground; it was the only means, according to the supporters of reform of the commercial policy, to prevent the decadence of the country.

“The fundamental problem set before Great Britain,” wrote Professor Ashley, “is to know if it will

²⁹ Sir Vincent H. P. Caillard, *Imperial Fiscal Reform*, 1903, p. 52.

be possible for her to find in a more closely united empire the requisite basis for economic prosperity which she is losing by degrees on the foreign markets." ³⁰

The free-traders, disquieted by the trend which threatened the doctrine to which they remained faithful, investigated the fundamental causes that had brought about this inferiority of English industry in comparison with its younger rivals. The results were most damaging to national self-esteem. According to their findings the principal cause of this inferiority was neither the protection policy followed by other nations, however obstinately, nor the unfair competition by dumping on the part of the Germans, which was much exaggerated by the fair-traders. The cause must be sought in England itself. The lack of a widespread scientific education systematically organized was the real reason for the slowness of economic advance during the recent period. "A defective knowledge, the use of inferior methods, the lack of flexibility and versatility, an obstinate industrial conservatism, these are the true enemies of English industry; they harm it infinitely more than all the customs tariffs and all the dumping syndicates that were ever created. What we really need," said Mr. Asquith to his fellow countrymen, "is a better education, a better intellectual discipline, a mind more open." ³¹

The cause of reform of the trade policy gained new vigor when Joseph Chamberlain, forgetful of the radical

³⁰ W. J. Ashley, *The Tariff Problem*, 1903, p. 139.

³¹ At Cinderford, Oct. 8, 1903. See *Trade and the Empire*, by H. H. Asquith, p. 31.

ideas he had defended twenty years earlier and now the great advocate of imperialistic ideas, made himself its champion. The abandonment of free trade was, he asserted, the first necessary step of a policy aiming at the creation of a British Empire firmly united by bonds of interest as much as by those of sentiment: "If Greater Britain remains united, no empire in the world can ever surpass it in area, in population, in wealth, or in the diversity of its resources."³² The political question seemed to him much more important than the economic. Only the creation of an Imperial Federation would permit the solution of difficulties of every kind, economic, financial, political, which threatened to hinder prosperity and to decrease the power of Great Britain in the near future. But a commercial union, under one form or another, must precede or accompany closer political relations; does not history show that without it, no permanent cooperation is possible? To increase the wealth of the colonies was to prepare important outlets for English manufacturers. Could it be believed that the colonies, if provided with an ample material prosperity and united to the home country by close economic bonds, would persist in refusing to participate in the burden of the Empire when they partook of its privileges? Their patriotism would make it a duty for them to assume their share of the heavy financial burden borne by the home country in order to insure their security and the liberty of their trade. Where but in the autonomous colonies that supported a large farming population could men be found for the defense of the Empire against the large rival empires,

³² At London, March 31, 1897.

men whom the mother country could no longer produce either in sufficient quantity or quality?

The general elections of 1906 were held on this question. Joseph Chamberlain and his followers fought vigorously for their ideas. Faithful to free trade, the liberals mainly dwelt upon the antidemocratic character of a reform that was to result in reestablishing duties on foodstuffs and in raising the cost of manufactured articles. Might not their reform result also in jeopardizing the profitable warehouse business which free access to her ports had allowed England to carry on and the extremely lucrative rôle of international clearing house which the City of London had assumed? Just as twenty-one years earlier, the liberal party won once more a brilliant victory, and at the colonial conference held in London the following year, Mr. Asquith, Chancellor of the Exchequer, declared that "free trade has been preserved because it is a policy of vital national interest."

Popular vote thus relegated to a future perhaps far distant the formation of a British Federation, which the imperialists advocated as the only means to enable Great Britain to compete with the great empires rapidly forming,—Russia, the German Empire, the United States of America. There were imperialists also among the liberals, but they feared that an active policy to force a federation would only accentuate the divergence of interests between the mother country and the colonies, and therefore they preferred to trust to time and favorable circumstances for a closer knitting of the ties of sentiment, which alone were holding together the diverse members of the vast empire. Moreover, the

proponents of the Federation were indulging in a singular delusion concerning the new power which would result from it; as a matter of fact, the dominions were still too scarcely populated, too insufficiently developed to increase in any great measure the prestige of the mother country. The colonies contained great possibilities to be sure; but how long a time was it going to take before they could be realized?

The South African war, which had caused them so much anxiety, had convinced English statesmen that England, having now lost the political and economic predominance that she had enjoyed uncontested during almost a century, could no longer continue her policy of isolation. To bring about a British Federation had seemed to certain minds, inclined to vast ideal constructions, the only way to allow her to persevere in such a policy. Facing the impossibility of accomplishing any such Federation at an early date, England saw herself compelled in order to safeguard her interests to resort to a policy of ententes and alliances.

CHAPTER III

EXPORTATION OF CAPITAL

THE manufacturing industry, in spite of the acute crises to which it is subject, has been for the nations that have applied themselves to it a source of greater and more rapid gains than agriculture. Such an increase in the wealth of industrial nations has allowed them to bring financial aid to newly settled lands and backward countries so as to hasten their development. In this way they have brought to the service of the latter the excess of capital for which its owners hoped to find a more remunerative investment abroad than at home. Such investments have been made in the form of loans either to governments or to private enterprises.

The exportation of capital is not a new thing, but during the second half of the nineteenth century it developed enormously. In the eighteenth century Amsterdam had been the financial center of the Western World. The Napoleonic wars put an end to her supremacy, and London took over the rôle. The great lead England had obtained in industrial development and the increased wealth that resulted actually gave her for half a century financial monopoly. During this period she was practically alone in the ability to lend capital. She played, therefore, a great part in the con-

struction of railroads in France and in the United States. Beginning about 1850 France began in her turn to play the part of a capitalist nation. Her people, although less enterprising than the English, possess in the highest degree the money-saving habit. The war of 1870 checked her advance in this respect. A decade later, freed from the heavy obligations her victors had imposed upon her, France entered upon a new period of prosperity. The Paris Bourse as a market for capital began to rival the London Exchange. Yet the English in their foreign investments, though not entirely neglecting public loans, are more interested in private enterprises, whose management they retain and whose needs for technical personnel they supply; while the French prefer to invest their surplus capital in government bonds.

Germany came late—more than a quarter of a century after France—to take her place in the world as a capitalist nation. Her industrialization, tenaciously pursued after the creation of the Empire, required a large amount of capital; and so rapid was her industrial progress that her financial structure could not develop at the same rate. This weakness has been on several occasions an impediment and a cause for serious anxiety. The Berlin Börse has always ranked second to the Paris Bourse. Without the help of foreign capital German industry would not have been able to survive many difficult periods, the crises attendant upon too rapid growth. In spite of such difficulties, the German financiers did not hesitate to invest capital abroad in order to open markets for their manufactur-

ing industries. Then a time came when, in spite of the risks, they were compelled to continue this policy; the huge factory that Germany had become had to find ever new outlets, not merely to avoid temporary crises but to save the entire structure from collapse.

The phrase "exportation of capital" is misleading to those who do not have in mind exactly what takes place. The thousands of individuals who supply capital receive securities in exchange, bonds of public corporations, and preferred and common stocks of private corporations. The borrowing countries do not import currency. They use the credits thus obtained in the purchase of manufactured articles which they do not produce and which they need for the exploitation of their natural wealth. The country that makes the advance can stipulate that the whole of the loan or at least an important part of it shall be spent in her markets. A clause to this effect is seldom omitted by financiers whenever a loan contract is drawn up with a foreign government. As for private concerns the presence of natives of the lending country on the board of administrators is a guarantee that an efficient watch will be kept upon the orders for equipment. It has been due in large part to the importance of such investments abroad that England has been able to develop her exports in a continuous fashion to their present state.

The ability of a power to lend capital to foreign countries may be a serious weapon in the hands of her statesmen. It furnishes them means of pressure on countries in the course of development and particularly

on those in financial straits; it allows them to give efficient support to their allies and to embarrass potential opponents by withdrawing aid to which they have become accustomed. Admission to the Stock Exchange quotation list of a large financial market like London or Paris is sought by governments in favor of their loans; the control of such admission also may become a diplomatic weapon. In Paris the admission of a foreign loan to the official quotation list may be made through the Brokers' Union Committee (Chambre Syndicale des Agents de Change) but only with the authorization of the Minister of Finance, who, before granting it, always consults his colleague in the Foreign Office. If this form of procedure is not followed, in London because of the constitution of the Stock Exchange, nevertheless the banking houses that specialize in issues of foreign loans consult the Foreign Office before committing themselves, and follow its advice. At times a government will bring pressure to bear on financiers to undertake certain financial operations considered helpful to its general policy. Such relations between politics and finance have naturally become the more frequent as the importance of finance has increased.³³

There are many instances where statesmen have

³³ Recently the government of the United States openly adopted this practice. On March 3, 1922, the Department of State announced "the desire of the Government to be duly and adequately informed regarding such transactions (the public flotation of issues of foreign bonds in the American market) before their consummation, so that it might express itself regarding them if that should be requested or seem desirable. The Department believes that in view of the possible national interests involved it should have the opportunity of saying to the underwriters concerned, should it appear advisable to do so, that there is or there is no objection to any particular issue." See the *Commercial and Financial Chronicle* for March 11, 1922, p. 1009.

used the financial power of their country to help along their designs. In 1885 Bismarck, being in disagreement with Russia on account of the customs policy, forbade the Reichsbank to advance on the security of Russian state loans, and so brought pressure on Russia to yield. The opening of the French financial market to Russia prepared the way for a political alliance between the two countries. Some ten years later Italy, though a member of the Triple Alliance, made a *rapprochement* with France as a consequence of financial need which the Berlin market could not satisfy. At the time of the Agadir crisis in 1911, the great French banks suddenly called their loans in Germany, for lending on call in the Berlin Börse had been one of the ways in which the French banks had been using their surplus funds, especially when the difference in the rate of interest made the operation profitable. Germany thus found herself in a difficult situation and avoided a serious crisis only by obtaining aid from American banks, which had at the time idle funds to lend abroad. The financial weapon which France wielded so opportunely, helped to bring about a peaceful solution of the conflict. The lesson was not lost upon the Germans. Shortly after, an officer of the Reichsbank wrote in the *Bank-Archiv*: "Let us not forget that liquid investment, together with our armaments, is the best protection against future war. We have become accustomed during a long period of peace to forget such a contingency." After the conclusion of the Morocco agreement with Germany (November, 1911), France asked the signatory powers of the Algeiras Convention to adhere to the new treaty. The Austrian government

gave France to understand that in return for its acceptance it desired to have the French market open to Austrian and Hungarian state loans. Now, at this very time Austria-Hungary was increasing her land and sea forces. The French government insisted upon acceptance of the treaty without conditions and had her way.

The foreign investments of the three great capitalist powers of Europe had assumed great proportions in the last quarter of the nineteenth century. At the beginning of the twentieth they were valued at 20 billion dollars for England, 8 or 10 for France, and 4 or 5 for Germany. At the same time it was estimated that the annual increments to the foreign holdings of these countries rose to about \$900,000,000 for England, \$400,000,000 for France, and \$250,000,000 to \$300,000,000 for Germany. The United States was still, on the eve of the war, among the debtor nations; the amount of European capital invested there, principally in railroad bonds, was valued at between \$4,000,000,000 and \$5,000,000,000. On the other hand the Americans had made investments, although for a much smaller amount, hardly equaling one quarter or one fifth of the former sum, in some countries of the New World, particularly Canada, Mexico, and Peru.

The sums thus advanced to foreign countries by the European nations have not always been usefully expended. Prodigal governments squandered them, monarchs used them at times to meet expenditures for luxury. The result was not long delayed, for both the principal and the interest were soon in default. The injured creditors then asked their own governments to

see that their rights were respected. In 1848 Lord Palmerston declared in an open letter that the British government had abstained thus far from considering such matters as of international importance, and he gave as a reason that it was not desirable that English subjects should invest their capital abroad instead of utilizing it in their own country. This seemed a well founded reason at that time. The same policy was long followed by the United States. If the American government deemed the claim justified, it was brought to the attention of the defaulting government; but if the latter denied the debt or refused to pay it, the matter was not pushed.³⁴

With the development of international financial operations this doctrine has not been maintained. But military intervention offered real dangers, for the failure of a government to meet its obligations promptly might serve as a pretext for a policy of expansion on the part of the creditor nation. Thus in 1862 the inability of Mexico to pay the interest upon her foreign debt brought about a demonstration in common by France, England, and Spain, the prelude of the attempt by Napoleon III to establish a monarchy there. The distribution of the debt of a defaulting state among the citizens of several countries has facilitated the conclusion of international agreements between the governments of the creditor countries and the government of the debtor country, to effect a contract and to regulate the management of collecting the portion of its income which the debtor countries agree to apply to the payment of its debt. In this fashion

³⁴H. Latané, *America as a World Power*, Ch. XVI.

was established in 1880 the international control over the finances of Egypt; in the year following that over Turkey's finances; and in 1898 that over the finances of Greece.

It is so important for the great industrial capitalist nations to find outlets for their products and profitable investments for their capital that their governments cannot remain indifferent, and the latter have frequently supported the efforts of their manufacturers and the bankers through diplomacy. This practice has been especially developed in matters concerning the grant of concessions for public works or for the exploitation of natural wealth, particularly minerals, when nationals of several countries are competitors. The American government adopted the same practice under Mr. Taft's presidency.

"While our foreign policy," he declared, "should not be turned a hair's breadth from the straight path of justice, it may well be made to include active intervention to secure for our merchandise and our capitalists opportunity for profitable investment which shall inure to the benefit of both countries concerned."

But this policy, which received the name of "dollar diplomacy," raised bitter criticism; it was feared that the government might be used as a docile instrument by private concerns at the expense of national dignity and interest.³⁵ When Mr. Woodrow Wilson came to the presidency he took a decided stand against it and declared that he would deny government support to American enterprises in foreign countries should they

³⁵ Frederick Austin Ogg, *National Progress, 1907-1917*, Ch. XIV, pp. 262-265.

attempt to abuse their power to exploit peoples too weak to defend themselves.³⁶

The wide scope assumed at the end of the nineteenth century by the exportation of capital created a new phase in the competition between the great nations. This was manifest especially in the New World, where, in the Caribbean, the European nations were confronted with the pretensions of the United States; and in the Far East, where all the imperialisms clashed.

AMERICAN IMPERIALISM IN AND ABOUT THE CARIBBEAN

The financial crises of 1907 in the United States put a sudden check on the imperialist trend that had swept the country during the decade preceding under the influence of a period of abnormal prosperity. Although thus much tempered, this feeling continued to make itself felt in the American policy toward the Caribbean area. The United States looked upon it as a natural zone of influence where it intended to exercise hegemony. To this end the Americans labored to protect it from all danger of political competition.

The European nations, by not protesting against the Hay-Pauncefote Treaty, had tacitly recognized such pretensions on the part of the United States; but the citizens of some of them, of England and France in particular, had made liberal advances to the governments of the republics bordering on the Gulf of Mexico and the Caribbean Sea. The unsound financial management and the constant revolutionary state of most

³⁶ July Fourth Address, 1914. Scott, *President Wilson's Foreign Policy* (1918), pp. 59-60.

of these republics had made it impossible for them to meet their obligations. Hence came serious conflicts with their creditors, who called for the help of their governments to obtain their rights.

This question of public borrowing by the republics of Latin America had early proved to be a source of diplomatic difficulties. They had often found themselves threatened by foreign intervention in behalf of creditors. The Brazilian jurist, Calvo, had protested as far back as 1867 against the practice of governments assuming thus the defense of the rights of their citizens. He refused to recognize the right either of military intervention or even of simple diplomatic action when it was a question of purely financial claims. According to him, capitalists who lend to a foreign government must assume all the risks of their venture, even the risk of their debtor's bad faith. By making use of their might against weaker states in order to defend their citizens' rights, he said, the great nations commit a real abuse of power. Undoubtedly the creditors when treating with hard-pressed governments had too often imposed conditions so onerous for the debtor that it became impossible to execute the terms of such a contract; but often also the borrower made light of the repudiation of his debts, wholly careless of the legitimacy of his creditors' rights. Calvo's doctrine was bound, of course, to be agreeable to the states of Latin America, especially to those that were misgoverned; and at the first Pan-American Conference, in 1890, all their representatives voted for a resolution maintaining that foreigners should have the same status as citizens and the same legal protection for life and property, and

no more. The delegates of the United States refused to adhere to this declaration; they supported the custom followed by foreign governments of upholding the claims of their citizens in instances of default, of forcing compulsory loans, and of committing other oppressive acts.

The Monroe Doctrine seemed to offer protection to dishonest or prodigal governments against eventual action by their creditors. Too broad an interpretation of this doctrine in certain circumstances might place the United States in a difficult situation. President Roosevelt attempted to lay down limits to the right of intervention claimed by creditors without appearing, however, to protect the debtors. "We do not guarantee any state against punishment," he said, in his message of December, 1901, "if it misconducts itself, provided that punishment does not take the form of the acquisition of territory by any non-American power." And he declared at the same time: "We do not ask . . . for any exclusive commercial dealings with any other American state." Shortly after this the default of Venezuela raised questions which caused great embarrassment to the United States. The German, English, and Italian governments resolved to defend the interests of their citizens; and after communicating their intentions to the American government, they established in December, 1902, a blockade along the Venezuelan coast but without a declaration of war. The trouble ended peacefully two months later through diplomatic intervention by the United States. It had shown the latter what dangers such eventualities threatened. Security was to be obtained only by

removing the causes for interventions of this kind, which might lead to the occupation of some point especially advantageous strategically. Only one means was available; the United States must assume tutelage of the undisciplined peoples. Mr. Roosevelt did not hesitate to direct his country into this path. Addressing himself to those turbulent and prodigal republics, he said plainly in his message of December, 1904:

“Any country whose people conduct themselves well can count upon our hearty friendship. If a nation shows that it knows how to act with reasonable efficiency and decency in social and political matters, if it keeps order and pays its obligations, it need fear no interference from the United States. Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society, may in America, as elsewhere, ultimately require intervention by some civilized nation, and in the Western Hemisphere the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power.”

It was not long before this threat was put into execution, and in 1905 the United States inaugurated the policy to which has been given the name of “financial protectorate.” The Dominican Republic was unable to ensure the service of her foreign debt; certain European powers whose nationals found themselves injured thereby advised the American government toward the close of 1904 that unless the United States assumed the management of the Dominican customs and guaranteed an equitable distribution of their proceeds among the creditors of the republic, they would find themselves

compelled to resort to measures of coercion. The United States then concluded with the Dominican Republic a convention which, after sharp opposition and a few alterations, was ratified by the Senate in 1907. It gave the United States the management of customs and forbade the Dominican government to increase its debt without the consent of the United States until the existing debt had been amortized. Since then, Honduras, Nicaragua, and the Republic of Haiti, having fallen into similar difficulties, have had to accept the same régime.

The Argentine Republic, upon the occasion of the Venezuela incident, had proposed to the United States the Calvo Doctrine, somewhat modified and curtailed; the author of the note sent on that occasion was Luis Drago, then Minister of Foreign Affairs, whose name was to remain attached to this new doctrine. He expounded it as follows: "that the public debt can not occasion armed intervention nor even the actual occupation of the territory of American nations by European powers." The adjustment of the Venezuela incident caused this question to be left in suspense; but when the third Pan-American Conference assembled in Rio de Janeiro in 1906, the United States government instructed its delegates to adhere to Drago's Doctrine and to strive to have the question referred to the second Hague Conference that was to meet the year following. It was so decided. The Hague Conference was not willing, however, to adopt so radical a solution as was proposed, for Drago's Doctrine, if strictly interpreted, would have prevented, just as Calvo's, the use of coercive measures to bring to terms a debtor govern-

ment which exhibited bad faith. In its stead, the delegates adopted the so-called Porter Resolution, which appears in the Hague Conventions for 1907. This forbids the employment of force for the collection of public debts until the claims shall have been approved by an arbitration court appointed by the creditor and debtor countries and the payment thereof shall have been refused, or until the demand for arbitration shall have been refused or disregarded by a debtor country.

The sensitiveness of the United States in matters concerning the hegemony it meant to enjoy in the vicinity of the Panama Canal and in the Caribbean was manifested on two occasions, in 1912 and 1913. In 1912 a rumor circulated that land had been purchased by a Japanese trading concern in Magdálēna Bay in Southern California on Mexican territory. Public opinion was aroused. Might not Japan, under cover of this establishment, proceed surreptitiously to organize a coaling station or perhaps even a naval base? The affair in reality had no importance, but the Senate in the first flush of feeling adopted a resolution which ran as follows:

"That when any harbor, or other place in the American Continent, is so situated that the occupation thereof for naval or military purposes might threaten the communications or the safety of the United States, the Government of the United States could not see without grave concern, the possession of such harbor or other place by any corporation or association which has such a relation to another Government, not American, as to give that Government practical power or control for national purposes." ³⁷

³⁷ Lodge Resolution, Aug. 2, 1912.

Likewise when in the last months of 1913 a representative of an English firm sought to obtain a concession for the exploitation of oil fields in Colombia, the American government stepped in and prevented the success of the negotiations. Among other things, the proposed concession granted special rights at a point on the coast in order to enable the concessionaires to provide adequate shipping facilities; this was evidently what the State Department most desired to prevent. President Wilson took occasion to express the opposition which such a policy of concessions to foreigners would encounter in the future on the part of the United States, a policy that very often leads toward a real political mastery over the weak countries that grant such concessions:

"You hear of 'concessions' to foreign capitalists in Latin America. You do not hear of concessions to foreign capitalists in the United States. They are not granted concessions. They are invited to make investments. . . . States that are obliged, because their territory does not lie within the main field of modern enterprise and action, to grant concessions are in this condition, that foreign interests are apt to dominate their domestic affairs, a condition of affairs always dangerous and apt to become intolerable. . . . I rejoice in nothing so much as in the prospect that these states will now be emancipated from these conditions, and we ought to be the first to take part in assisting in that emancipation." ³⁸

The purpose of the United States to tolerate no possibility of intervention on the part of a foreign nation

³⁸ Mobile (Ala.) Address, Oct. 27, 1913. Scott, *President Wilson's Foreign Policy* (1918), pp. 22-23.

in the Caribbean was manifested once more in the treaty imposed upon the Republic of Haiti in 1915. The latter undertook not to give away through sale, lease, or otherwise, any portion of her territory to a foreign government, and not to conclude any contract with a foreign power which might injure her independence. The year before, the United States had concluded with Nicaragua a treaty that submitted it to a political régime analogous to that of Cuba. Furthermore, Nicaragua granted to the United States in consideration of a payment of three million dollars the exclusive right to build a canal by the so-called Nicaragua route and also the permission to establish a naval base in the Corn Islands and another in Fonseca Bay for the protection of the Panama Canal.

The United States, like the European colonial nations, adopted a restrictive policy in its commercial relations with its extra-continental territories and dependencies. The continental customs system has been extended to Hawaii, preferential duties are granted to American commodities imported into Porto Rico, the Philippines, and Cuba, and the products of these islands are favored when entering the United States. When Congress in 1912 passed a law concerning the fiscal status of the Panama Canal in anticipation of its approaching completion, it exempted from tolls the American ships engaged in coastal trade. England protested against a measure she deemed contrary to the Hay-Pauncefote Treaty, which stipulates that "the canal shall be free and open to the vessels of commerce and of war of all nations observing these rules [i.e., the regulations embodied in the Convention

of Constantinople, October 28, 1888, on the free navigation of the Suez Canal], on terms of entire equality, so that there shall be no discrimination against any such nation, or its citizens or subjects, in respect of the conditions or charges of traffic or otherwise." President Taft had signed the bill granting this exemption from tolls; but in 1914 his successor, President Wilson, obtained from Congress the repeal of this clause, which he declared violated the treaty. However, the abrogation was adopted as a measure rather of courtesy than of legal obligation, and Congress saw fit to assert in this very bill the full right of the United States to discriminate in favor of its vessels by exempting the vessels of the United States or its citizens from the payment of tolls for passage through the canal.

If Europe has bowed before the policy of hegemony plainly affirmed by the United States in and around the Caribbean, such a dictatorial policy could not but arouse some ill feeling among the republics of Latin America, three of which at least, Argentine, Brazil, and Chile, are in the way of becoming great nations. These republics accept aid from the United States but they refuse to submit to its tutelage. A South American writer, F. Garcia Calderon, in a work devoted to *Democracies of Latin America*, expresses their feeling:

"For geographical reasons, and on account of its very inferiority, South America can not dispense with the influence of the Anglo-Saxon North, with its exuberant wealth and its industries. South America has need of capital, of enterprising men, of bold explorers, and these the United States supplies in abundance. The defense of the South should consist in avoiding the

establishment of privileges or monopolies, whether in favor of North Americans or Europeans." ³⁹

THE CLASH OF IMPERIALISMS IN THE FAR EAST

The Far East has attracted, at least since the sixteenth century, the fascinated attention of the peoples of the West. Its remoteness and the difficulty of reaching it made it a mysterious land reputed to contain great wealth. The China trade was in the seventeenth and eighteenth centuries the origin of a few great fortunes, and in the course of those centuries the Portuguese, the Dutch, the English, the French, and toward the close of the eighteenth century some American ship-owners contended for the limited traffic which the Chinese were willing to carry on with them, provided they complied with very strict formalities. Such long voyages were still in the beginning of the nineteenth century a great venture. It was only after the Opium war (1842) and the Tientsin treaties (1858) that China was at last partly open to Westerners. About the same time (1854) Japan, too, had been compelled to renounce the isolation in which she took such pride and to open her ports to trade.

For nearly half a century the European nations, desirous only of commercial relations, worked in harmony to compel China and Japan to provide easy access to their territory. England was established in Hong Kong, which had become the great warehouse of the Far East. She controlled the profitable traffic in opium produced in India and was thus far ahead of her

³⁹ F. Garcia Calderon, *Latin America: Its Rise and Progress*, translated by Bernard Miall, 1913, p. 306.

competitors. She did not aspire to a monopoly; the relations of China with the Western powers having been established on the basis of the principle of the most-favored-nation clause, which appeared in all their treaties with China, the advantages won by one of these nations were forthwith extended to all the others.⁴⁰ The European nations had imposed upon China and Japan a conventional tariff, and had fixed at five per cent ad valorem the import duties which either could levy on European commodities, thus insuring themselves against any attempt to restrict the trade by means of high import duties.

In the last quarter of the nineteenth century three European powers acquired territory contiguous to China: to the north, Russia in her continued advance toward an open sea; to the south, France by her establishment in Tonkin (1885), and England by the annexation of Upper Burma (1886). They had now new roads of penetration toward the Chinese market, which until then had been approached only by sea, and the prospect of reaching more easily certain remote regions of this vast market. Anxious not to lose these advantages, France and England required China to enter into an engagement not to alienate the province of Yünnan bordering on their possessions; and England required the same promise concerning the Yangtze basin, the great populous region of Central China where her trade was firmly settled and from which she did not mean to be evicted.

The Sino-Japanese war (1894-1895) began a new phase in the relations of Europe with China. Victori-

⁴⁰ See note, p. 79.

ous Japan required of China the recognition of Korea's independence and the cession of the Pescadores Archipelago, of Formosa, and of the Liaotung Peninsula. The European nations were suddenly brought face to face with the partition of the Chinese Empire, on which some of them already had designs. The establishment of Japan upon the mainland closed to Russia the region where she was hoping to reach an open sea. Determined to oppose this, she gained the support of France and Germany, and only a few days after the signing of the Shimonoseki Treaty these three powers advised Japan to surrender to China the Liaotung Peninsula, as "the Japanese occupation of that territory not only endangered the existence of the Chinese capital and of Korean independence, but would upset the peace of the Orient." Japan could not but comply. However, she came out of that war with greatly increased prestige and the certainty of being considered henceforward in any settlement of the Far East question, which through her victory was projected into the foreground of international politics. The possibility of the disintegration of the Chinese Empire, that had just evinced such great weakness, was a grave problem for the great industrial nations. "How vital is its maintenance (i.e., of British commercial supremacy), not merely for the sake of our Empire, but for the sustenance of our people, no arguments are needed to prove," wrote the Honorable G. N. Curzon in 1894. "It is only in the East, and especially in the Far East, that we may still hope to keep and to create open markets for British manufacturers."⁴¹ None of these nations intended

⁴¹ G. N. Curzon, *Problems of the Far East*, 1894, p. 421.

to be evicted and there began immediately among them a keen struggle for the economic advantages that they coveted. In the case of one of them, however, this struggle had above all a political character; Russia aimed at satisfying an ambition justified by no economic motive, for her expansion in lands so remote was to drive her into dangerous adventures and to precipitate an era of revolutions at home.

Immediately after the war of 1894 Russia, who had been the great protector of China, demanded a reward for services rendered. The Chinese government was unable to collect the money required for payment to Japan of the indemnity provided for in the peace treaty; it had already started negotiations with England for a loan, when Russia compelled it to break them off. She guaranteed the loan, for which France, her ally, authorized the issue at home. As payment for her services Russia received the right to prolong her trans-Siberian railway across Northern Manchuria and to build a branch line to Port Arthur; thus she at last gained access to a harbor free from ice. The Russian initiative marked the beginning of what Lord Salisbury has called "the battle of concessions," in which diplomacy and business proceeded in more intimate accord than ever before. To uphold her policy England owns the Hong Kong and Shanghai Bank, the dean of the Far Eastern banks, which is supported by a group of powerful commercial firms. The Banque de l'Indo-Chine, created by France in 1875, has branches in China and Japan. In 1889 the great Berlin banks founded the Deutsche Asiatische Bank. And at the close of 1895 the Russian financiers created, at the

request of their government and with the help of French financial concerns, the Russo-Chinese Bank.

In 1897 China granted to a Belgian syndicate a concession for the construction of one of the great railroad lines of the empire, the Pekin-Hankow line. England protested; the Belgian syndicate masked in reality a Russo-Franco-Belgian entente. Lord Salisbury declared that "a concession of this nature is no longer a commercial and industrial enterprise and becomes a political movement against the British interests in the region of the Yangtze." The concession was maintained, but as a compensation England obtained concessions for lines amounting to double the mileage of the former.

Hardly was this question settled when a sudden German initiative gave a new aspect to the Chinese problem. The murder of two German missionaries in the Shantung province in November, 1897, furnished Germany with an opportune excuse for acquiring a sphere of influence in China. In March, 1898, she obtained a ninety-nine year lease on the Bay of Kiaochow and its vicinity, described by von Richthofen as the finest harbor in Northern China, together with the right to build railways in the Shantung province, and to work mines, and in addition a right of preference in subscribing to the loans that the Chinese government might issue for the purpose of developing that province. This was a new formula, combining regard for a position both strategic and commercial. The other European nations interested in the Far East hastened to follow Germany's example. Russia immediately demanded and obtained, with the same conditions as

were granted for Kiaochow, a leasehold on Port Arthur, and, shortly after, a twenty-five year lease on the Liaotung Peninsula, the very same that three years earlier she had prevented Japan from occupying. The lease was of course complemented with railway and mine concessions. France obtained the cession on lease of Kwangchow-wan Bay and the right to build a railway from the Tonkin frontier to Yünnan along the valley of the Songka. England herself acquired an extension of her Kowloon territory on the mainland opposite Hong Kong and the concession of Weihaiwei "for so long a period as Port Arthur shall remain in the occupation of Russia"; moreover, she had the Chinese government renew the engagement not to alienate under any form any territory in the provinces situated in the Yangtze basin. With the purpose of ensuring her security in this region where she opposed the granting of special privileges to any competitor, England made an agreement with Germany (September, 1898) by which they defined the spheres of influence that both powers recognized. Then England signed another agreement (April, 1899) with Russia for the same object; she recognized the latter's privileged situation north of the Great Wall, and Russia recognized Britain's in the Yangtze basin. Japan, not feeling ready as yet to resume an active policy, was content to ask from China the promise, which she gave, not to alienate the Fukien province opposite her colony of Formosa.

The great European powers had taken precautions against the time when the political partition of the Chinese Empire should occur, which their statesmen

believed to be near at hand. Meanwhile they had proceeded to make an economic partition. The United States had abstained. It looked upon China, however, from which it was already one of the most important buyers, as a natural outlet for its industry when the period of American exportation should open. It was all the more strongly impressed by this policy when the time seemed at hand for its industry to seek regular markets abroad, and when the annexation of the Philippines had just brought it direct interests in the Far East. The desire to possess Manila, out of which it aspired to make a second Hong Kong, had been one of the causes for the annexation of the islands. The establishment of spheres of influence in China and her political partition meant the ruin of its hopes. The American people would not authorize their government to emulate a similar policy in a country so remote. The government then took the only measure to which it could resort in order to protect the interests of its nationals. The Secretary of State, John Hay, addressed to the powers interested in the Far East a note (September, 1899) setting forth the principles in which the United States asked them to acquiesce concerning trade relations with China: "No nation is to be allowed to come in and, on the plea of possessing a 'sphere of influence,' disturb the established trade with China, in which all nations have a right to share."⁴² This made it impossible for the foreign nations established in China to set up privileged markets through the imposition of differential customs duties; the

⁴² Albert Bushnell Hart, *The Monroe Doctrine, an interpretation*, 1916, p. 293.

American note specified explicitly "that the Chinese treaty tariff of the time being shall apply to all merchandise landed or shipped to all such ports as are within said 'sphere of interest.' " ^{42a} The proposition was agreed to by all the interested nations.

The Boxer insurrection the next year compelled these nations to undertake a military expedition against Peking in order to deliver their besieged legations. The United States participated. The occasion seemed favorable to give renewed expression to their policy, which they asked the other powers to join. The object of the United States was, according to the note of July 3, 1900: "to seek a solution which may bring about permanent safety and peace to China, preserve Chinese territorial and administrative entity, protect all rights guaranteed to friendly powers by treaty and international law, and safeguard for the world the principle of equal and impartial trade with all parts of the Chinese Empire." All the governments concerned answered favorably. The American initiative had succeeded in having the two principles of the "open door" and of "territorial integrity" adopted as the basis of the relations between the foreign powers and China. It was an interesting attempt to limit, at least in one region of the globe, the dangers inherent in economic imperialism.

Two nations, however, Russia and Japan, that held a peculiar position in the Far East on account of their

^{42a} The most-favored-nation clause, which appeared in all the Tientsin treaties, provided for "free and equal participation in all privileges, immunities, and advantages that may have been, or may be hereafter, granted by His Majesty the Emperor of China to the Government or subjects of any other nation." British-Chinese Treaty, signed at Tientsin, June 26, 1858. Article LIV.

geographical location, found these principles distasteful even though they had declared their adherence thereto. The Russian statesmen dreamed of securing for their country a predominant situation in Asia and of making it a great naval power in the Pacific. This ambition incited them to continue in their policy of expansion. No economic need justified this insatiable lust for territorial acquisition, which nothing but dangerous political megalomania could explain. Upon the occasion of the Boxer insurrection Russian troops established themselves in Manchuria; the coming completion of the trans-Siberian railway and the building of a branch line from Harbin to Port Arthur were to facilitate for Russia the domination of a land which she did not intend to evacuate. In 1901 she endeavored to impose upon China the acceptance of her protectorate over Manchuria. The powers protested to the Chinese government against the exclusive privileges which Russia claimed for herself. The conclusion of an Anglo-Japanese Alliance in January, 1902, to ensure the maintenance of the independence and territorial integrity of the Chinese Empire and of Korea and of "equal opportunities in those countries for the commerce and industries of all nations," compelled Russia to abandon her plans for the time being. In the month of April she pledged herself in a convention with China to evacuate Manchuria within a period of eighteen months. This promise was not to be kept. China was unable to resist Russia, but Japan was resolved not to allow the czar to acquire a predominant situation in a region she coveted for herself. The pretensions of both countries to Korea brought about the final crisis. In

February, 1904, Japan, guaranteed by her alliance with England against the intervention of any other power on the side of Russia, declared war upon the latter. She came out victorious and the Portsmouth Treaty (September, 1905), concluded under the auspices of the United States, recognized Japan's "permanent political, military, and economic interests in Korea," and transferred to her Russia's rights over the Liaotung Peninsula and over the southern section of the Manchurian railroad. The two powers agreed to withdraw their troops from Manchuria but to maintain guards to ensure the security of the railroad. The treaty also included clauses relative to the freedom of commercial transactions: it was declared that neither Japan nor Russia should obstruct "any general measures common to all countries which China may take for the development of the commerce and industry of Manchuria"; and that railroads in Manchuria should be exploited purely for commercial and industrial purposes and in no way for strategic. This did not apply to Korea. Shortly after, China and Japan concluded a treaty (December, 1905) in which China confirmed, as far as they concerned her, the clauses of the Russo-Japanese Treaty. To this treaty were attached secret protocols, which a little later Japan invoked in support of her action to prevent China, England, and the United States from engaging in railroad enterprise in Manchuria.

Her victory over China, her alliance with England, her victory over Russia, such are the three stages by which in ten years Japan raised herself to the rank of a great power. She was a new factor in world politics

and henceforward she was to play an important part in them. Her political ambitions, upheld by pressing economic necessities, make her a keen and serious rival for the Western powers whose imperialisms are going to clash with a Far Eastern imperialism. Compelled by the Westerners to come out of the isolation in which they had been pleased to stay for over two centuries, the Japanese have manfully accepted the situation imposed upon them. "We shall extract all that is best from the ideas of the whole world in order to increase the prosperity of the Empire," the Emperor said in his solemn declaration of March 14, 1868. The men of the Restoration who have built up modern Japan did not fail in this respect. As the first nation in Asia to modernize herself, Japan naturally had an ambition, as soon as she saw her first efforts crowned with success, to lead the transformation of the Asiatic world and to supplant the whites in this profitable rôle. Her statesmen had the great merit of seeing that their country could not fill this part unless it became an industrial nation. Under this condition only would it be able to gain the wealth and power without which it would not be possible to carry out its vast designs. Within thirty years the Japanese achieved great progress in this direction and at the opening of the twentieth century they were sanguine that no insuperable obstacle should stop them. But a grave problem faced them in the rapid increase of their population. They numbered 33,000,000 in 1872 and 46,000,000 in 1902. They were cramped in their insular home, where it was becoming difficult to increase agricultural production. This population was willing to emigrate to the temperate regions

of the New World; but here they encountered the opposition of the young white nations, who repelled Japanese labor as they had repelled the Chinese, through their apprehension of race mixture and through the fear among their own laborers lest the competition of the Asiatics, who were easily satisfied as to living conditions, should bring about a decrease in wages. Japan was, therefore, led to seek in Asia the necessary outlet for her excess of population. Manchuria seemed suited to her designs; hence arose her rivalry with Russia and her desire to extend her domination over Korea, which was an excellent strategic base for her future development and an important center of agricultural production.

Heir to Russia's rights over the railway the latter had built in Southern Manchuria, Japan used it as an instrument of penetration. In 1906 was created the South Manchurian Railway Company, half the capital of which was owned by the Japanese government. This company, besides operating the railroad, also conducted a shipping line and worked the Fusan coal mines. Moreover, it owned extensive lands and managed a colonization enterprise. In this same year the great trade corporations were merged into the Manchurian Export Guild for the purpose of monopolizing the foreign trade of Manchuria. Although under the nominal sovereignty of China, Japan was taking possession of the country and, as she exercised administrative control, it was easy for her to favor as she pleased her nationals and her protégés. She continued, however, to declare herself faithful to the principles of the open door and of the integrity of China. In the

month of April, 1905, before the end of the peace negotiations with Russia, England had renewed her alliance with Japan and it was restated in the treaty that one of its objects was "the preservation of the common interests of all the powers in China by insuring the independence and the integrity of the Chinese Empire and the principle of equal opportunities for the commerce and industry of all nations in China." Adherence to these principles was again renewed in two conventions arrived at by Japan with France in June, 1907, and with Russia the next month.

The European nations seemed to feel little interest in the policy pursued by Japan in Northern China beyond the Great Wall. England, content with her economic predominance in the Yangtze valley and in the southern provinces, left to Japan the northern markets where geographical propinquity secured her a privileged situation. To the United States, on the contrary, these markets were of especial interest. The Panama Canal, under way since 1905, was expected to give it an important advantage over its European competitors in the Far East. Although the western shores of the United States are washed by the Pacific, the commodities exported to China and Japan originate almost wholly in the industrial states of the Northeast and Southeast. By the Suez route New York is 2,000 miles farther from Shanghai and Yokohama than is Liverpool. The opening of the Panama route was to put New York 9,835 miles from Yokohama while Liverpool would remain 11,640 miles distant; and it was to make both cities equidistant from Shanghai. This would give New York an advantage in the country north of

the Yangtze. The United States therefore looked upon Manchuria as a market peculiarly favorable and was eager to forestall the possibility of Japan's restricting access to it by administrative measures. Korea was left to Japan, who had placed it under her protectorate in November, 1905. This decision had indeed somewhat modified the friendly relations preserved until then between the United States and Japan. Difficulties rising at the same time in California over the question of Japanese immigration created for a period a strained situation. But both governments strove to maintain good understanding, and in November, 1908, they exchanged notes in which they stated their policy and their intentions. They declared themselves determined to maintain the *status quo* in the Pacific and "to preserve the common interests of all powers in China by supporting, by all pacific means at their disposal, the independence and integrity of China and the principle of equal opportunity for commerce and industry of all nations in that Empire." ⁴³

About that time American business men, backed by the administration (this was during Theodore Roosevelt's second term), showed their intention of becoming interested in the development of Manchuria. In 1907 the consul general of the United States in Mukden had

"This note, known under the name of the Root-Takahira note from the names of the signatories, the American Secretary of State and the Japanese ambassador in Washington, was not submitted to the American Senate. It was, therefore, only the expression of the views of both governments at that time. In order to avoid the passing by Congress of special laws to restrict Japanese immigration, Japan had besides taken it upon herself to exert a strict surveillance over the emigration of her laborers. She loyally respected this engagement, known as the Gentlemen's Agreement of 1908. Japan in relation to herself follows a policy of exclusion since she forbids Chinese and Korean laborers to enter her territory.

obtained the Chinese government's consent to the creation of a Manchurian Bank, the capital of which would be provided by Americans. This bank, which it was intended should be the financial agency of the Manchurian government, was to build in cooperation with a group of English business men a railroad line from Hsinmintung to Aigun and was also to set up other enterprises for the purpose of developing commerce and industry in the province. This plan met with Japan's veto and failed to materialize, being finally given up at the close of 1908. About this time Mr. Harriman, an American financier especially interested in railroads, started negotiations with the Russian government for the purchase of the Chinese Eastern Railway in Northern Manchuria. That government showed a favorable disposition, but it was stipulated that Japan should sell the South Manchurian Railway to the same concern. Failure to obtain Japan's consent caused the plan to miscarry.⁴⁴ The American administration, however, wished strongly to withdraw from Japan the advantage given her by this concession. Therefore in 1909, under Mr. Taft's presidency, Philander C. Knox, Secretary of State, submitted to the great powers a plan for the creation of an international corporation that was to purchase from both Russia and Japan their railroad concessions in Manchuria, the railroads in this way becoming neutralized. The two

⁴⁴ Mr. Harriman, who had built a great railroad system in the United States, entertained a gigantic plan according to Mr. Payson J. Treat; he wished to form a round-the-world transportation system financed by American capital. To realize it he intended, after the purchase of the Manchurian Railways, to negotiate the purchase of transportation rights on the Trans-Siberian. Payson J. Treat, *Japan and the United States*, 1921, p. 190.

powers concerned refused to surrender their special interests in that region. The proposition was not pushed further, but it provoked shortly after (July, 1910) the conclusion of an agreement between the Russian and Japanese governments to ensure the maintenance and observance of the *status quo* in Manchuria. A few months later Japan purely and simply annexed Korea, an action that aroused no official protests on the part of any power.

Mr. Taft continued the policy of his predecessor, Mr. Roosevelt, by standing for active aid being given by the administration to citizens, business men, and industrials, in order to forward the country's interests abroad. He soon found occasion to apply this policy in China. He realized that it was necessary for Americans to collaborate with the nationals of European countries in Chinese financial enterprises if they wished to secure the observance of the open-door policy and to impose it upon Japan. The size of the financial means required for certain enterprises and the wish to avoid competition inclined the European nations to cooperate. In 1909 English, French, and German financial interests were preparing, under the inspiration of their governments, an agreement for the construction of the important Hukuan Railway group (Canton-Hankow, Hankow-Szechwan). The agreement was on the point of being concluded when the American government asked for participation on behalf of a financial group that had been for some time negotiating with the Chinese government for a loan designed to bring about the reform of the currency. The Secretary of State supported this request by pointing to "the menace to for-

eign trade likely to ensue from the lack of proper sympathy between the powers most vitally interested in the preservation of the principle of equality of commercial opportunity," adding that "the government of the United States regards full and frank cooperation as best calculated to maintain the open door and the integrity of China and . . . that the formation of a powerful American, British, French, and German financial group would further that end." The request was agreed to. In May, 1911, the final agreement was concluded between China and the Four Power Syndicate for the loan relative to the Hukuan railroads. The Chinese revolution delayed the execution of the contract; and the year following the Four Power Syndicate, with a view to obtaining the widest possible internationalization of large Chinese enterprises, asked the Russian and Japanese financiers for their adherence. After some hesitation they accepted and a Six Power Consortium came into being.

Thus strengthened, the Consortium contemplated a vast operation, having as its end the financial reorganization of China. It naturally required of the latter binding guarantees: the pledge of the gabelle, or salt tax, the control of which should be entrusted either to the existing international administration of the customs or to a similar administration also placed under the authority of a foreigner; the creation by the Chinese government of a system of financial control in which foreigners should be employed as executives to ensure the use of the funds derived from loans for specific ends; and finally the engagement by the Chinese government to appoint these foreign financial groups as its

agents to assist the administration in its task of reorganization during a period of five years. The conclusion of this severe contract was delayed, first by the hesitations of the Chinese government, then by the negotiations among the powers for the appointment of the financial advisers. The final agreement was at last signed with China in April, 1913, but the Consortium now included the representatives of only five powers, the Americans being out of it.

On March 4, 1913, Mr. Taft had left the presidency of the United States, and Mr. Woodrow Wilson had succeeded him. Thereupon the American financiers who were members of the Consortium asked the new President to sanction their participation in the operations contemplated. He answered that the conditions of the loan appeared to him

“to touch very nearly the administrative independence of China itself, and this Administration does not feel that it ought, even by implication, to be a party to those conditions. The responsibility on its part which would be implied in requesting the bankers to undertake the loan might conceivably go the length in some unhappy contingency of forcible interference in the financial and even the political affairs of that great Oriental state just now awakening to a consciousness of its power and its obligations to its people.”

Deprived of the support of their government, the American bankers withdrew from the Consortium. Mr. Wilson's decision was in accordance with the traditional policy of the United States. It was a matter of regret for those who were closely acquainted with the Far Eastern questions. A man who had lived long in

China as an American diplomatic agent and who, shortly before his death, had been appointed adviser to the president of the Chinese Republic, Mr. W. W. Rockhill, said upon this occasion:

"It seems clear to me that so long as we shut our eyes to the undoubted fact that, in the East at least, from Stamboul to Tokyo, politics, finance, and trade go hand in hand, and that neither the profits of trade can be fully reaped nor our influence and prestige be adequately upheld without incurring the responsibility incident to political and financial activity, we must be content to play a modest, effaced rôle in the Far East, unworthy, in my opinion, of our great country and its vast interests in the Pacific."⁴⁵

The American withdrawal was to be regretted from the point of view also of general policy. The international Consortium was the outcome of an evolution slowly developed in the ideas of the Western statesmen, through the realization of the dangers incident to overkeen competition for the financial advantages to be reaped from the relations with China. They had come to understand that the well-conceived interest of all required work in common for the consolidation of this huge empire and for its economic organization, instead of securing for individual countries particular advantages within limited areas. Such a common effort for economic ends ought further to reduce the chances of political conflicts, by eliminating the eventuality of a partition of China, which during the previous twenty years had been hanging over the Far Eastern question. The realization of the Six Power

⁴⁵ Quoted by T. W. Overlach, *Foreign Financial Control in China*, 1919, p. 214.

Financial Consortium was a happy attempt to minimize the risks occasioned by the clash of the several imperialisms in the Far East. The decision of the President of the United States, however well founded the ethical motives that dictated it, had the serious disadvantage of removing from that group, the creation of which had entailed so much labor, one of its principal members. But the outbreak of the World War suddenly interrupted the work of the Five Power group before there could be a test of its ability to realize the hopes it had kindled.

CHAPTER IV

ECONOMIC INTERNATIONALISM

THE scientific discoveries of the nineteenth century brought about a *rapprochement* of nations, through the reduction of the obstacle of distance and through the increase of their economic interdependence, a result of the rapid industrialization of some of them. These two movements, accelerating in speed as the century advanced, had the ultimate result of considerably increasing production, agricultural as well as industrial, and hence of bringing about a great betterment of the general well-being. Nationalist sentiment, however, prevented these tendencies from producing all their economic consequences; a perfectly comprehensible fear lest they should place themselves too completely at the mercy of other nations in respect to necessities of life, and a legitimate desire to develop the natural wealth of their own country, had induced peoples to maintain artificial economic barriers between nations in order better to insure their political independence. The same sentiments had inclined the more powerful among them toward an economic imperialism, which had strongly influenced their foreign policy, and had been the underlying cause of many conflicts during this period. On two occasions—during the partition of Africa, and during the clash of imperialisms in the Far

East—there had been ground for fearing a general conflagration involving the nations which were eagerly scrambling for territories where the inhabitants were unable to maintain their independence. On both occasions, either through the victory of common sense over unbridled appetites or through fear of the catastrophe that might result from such a struggle, peace was preserved. The solution reached in an attempt to solve the Chinese problem was proof of the progress of an idea of a community of interest, the advantages of which far surpassed any gains resulting from the pursuit of selfish national interests. Good understanding between nations for the development of wealth not yet exploited appeared more profitable than a perpetual state of struggle and conflict. The maintenance of such good understanding, so difficult of realization, remained, however, very precarious. Was it not constantly threatened by selfish interests, often not very clear-sighted in their haste to reap, and by political ambitions that only too easily caused the people to lose their grip on realities?

This conception of a community of interest between peoples, superior to national interests, had slowly taken shape during the period when scientific progress was continuously increasing the economic interdependence of nations. In the course of the last fifty years a considerable number of international conventions had been concluded to ensure respect for, or to facilitate the realization of, interests common to several states, or even to them all. Such conventions are an attenuation of the imperialistic policy; they mark a step toward economic internationalism.

The purpose of the most important of these conventions was to safeguard the freedom of certain routes of an international character or to facilitate the use of the means of communication. The principle of free navigation of international rivers had been established as far back as the Congress of Vienna; the Treaty of Paris of 1856 reaffirmed the principle, referring especially to navigation on the Danube. Navigation on the Rhine was likewise several times the object of international compacts between the adjoining states to ensure its freedom. The same principle was proclaimed concerning the two great artificial navigation routes opened in the latter part of the nineteenth and in the early twentieth century. The Sultan's firman (1866) granting the concession for the Suez Canal required that it should always be open to all trading vessels without distinction of nationality. In 1873, shortly after its opening, an international commission, meeting at the Sultan's invitation, declared navigation through the canal open and common to war vessels of all nations; this declaration, adopted by the Porte and by almost all the maritime powers, placed the canal under international protection. Finally, in 1888, an international agreement was arrived at, to ensure to all nations free use of the canal in peace and in war time, and to forbid its blockade.⁴⁶ As for the Panama Canal, the Hay-Pauncefote Treaty between England and the United States, to which the other powers tacitly agreed, lays

⁴⁶ The British government formally recognized the Suez Canal Convention only in April, 1904, at the time of the Anglo-French agreement, which settled all the colonial differences existing between the two powers, and in which France recognized the predominating position of England in Egypt.

down in its preamble the general principle of neutralization; but neutralization is not placed under the collective safeguard of the nations,—the United States alone is charged with the ensuring of freedom of navigation on the Panama Canal, and it agreed to admit on an equal footing the vessels of all nations and to adopt the rules in force for the Suez Canal. In fact, however, and despite such declarations, anxiety to secure political interests led England to perpetuate her occupation of Egypt in order to confirm her domination over the Suez Canal, and led the United States to fortify the canal rather as a national route subject to its control than as an international route.

The Universal Telegraph Union and the Universal Postal Union, of which all civilized nations are members, are essential to the most extensive use of the means of communication. An international convention has also been arrived at among the European nations, to regulate international railroad transportation in continental Europe. Its principal objects are: the responsibility of the carriers, the classification of freight, and the mode of fixing rates. Its aim was to attain as promptly as possible uniformity among different countries in rules governing matters of transportation.

Two other international unions are also of great importance in the economic life of our time,—the union for the protection of patent rights, complemented by the union for the protection of trade-marks and copyrights.

Manufacturing industry, too, was the occasion, at the close of the nineteenth century, of international conventions of a new character. The concentration of

the working masses which it called for, and the conditions of labor it created gave birth to problems heretofore unknown. Legislation has stepped in to impose protective measures, either in the common interest of the nation, when it is a question of sanitary regulations or of the hours of labor of women and children; or in the more particular interest of labor,—as for example, industrial accident insurance, or sickness and unemployment insurance, or regulation after hours of labor of adult males. The facilities of travel, the development of emigration, the increasing importance of international competition, have brought forth from workingmen and masters of industry alike a demand for international conventions aiming at the standardization of such new regulations throughout all industrial countries, which for various motives have not wished, or have not been able, to proceed at the same pace. Workingmen expected, when they moved away, not to lose the advantages of a financial order which they had formerly enjoyed; industries in countries having the most advanced labor legislation feared lest they should be handicapped by such requirements in a competitive market, and they wished to return to a footing of equality by submitting their competitors to the same obligations.

The first effort toward international labor legislation was attempted by Switzerland. As early as 1881 she asked for an opinion on this question from the governments of the principal industrial nations. The answers were all unfavorable. Four years later the Swiss government again put the question. This time it found support with the French Parliament and the German

Reichstag; in Germany, however, Bismarck declared that the protection of labor by means of international conventions was impossible or impracticable. Kaiser William II, after his breach with the Chancellor, in applying himself to the creation of a personal government and endeavoring to deserve the name of Peace Emperor, embraced the idea. He called to Berlin in 1890 an international conference on labor legislation that attracted widespread attention. The problems that had already provided new subjects for legislation in several countries, notably in Germany, were examined. The delegates approved a number of principles, but the reforms outlined by the conference were not adopted by the various national legislatures.

International labor conventions owed their existence to questions of an immediate financial interest to workmen. The development of emigration, especially of temporary migration from one country into a neighboring country, brought international agreements to protect the interests of such seasonal laborers. The first treaty of this kind was concluded in 1882 between France and Belgium. Its object was the transfer of deposits between the savings banks of the two countries. In 1904 a convention of a broader character was signed by France and Italy to secure for laborers of each country working in the other equal treatment in case of industrial accidents. This agreement likewise provided for the application of the same principles of reciprocity to old-age and unemployment insurance when it should be created by law. Labor treaties of the same type were concluded between other industrial nations.

The attempt which had failed at Berlin in 1890 was resumed in 1905 at Berne, where the delegates of fifteen states assembled to study international labor legislation. This conference led to the conclusion of two conventions, the so-called Berne Conventions of 1906. One prohibited night work for women; the other, the manufacture and sale of white phosphorus matches. In 1913, at the third international labor conference at Berne, the delegates of twelve states signed an agreement restricting to ten hours per day the work for women and young people under sixteen, and another agreement prohibiting night work for young people under sixteen. Through the development of means of transportation, many economic problems relating to the supply of foodstuffs and raw materials, to prices, to markets, etc., have become of universal interest and have stimulated the creation of international organizations for the collection of documents and information, for the study of these questions, and for bringing *en rapport* the persons particularly interested in them. In 1905 an international organ of this kind was created for agricultural questions, at the suggestion of an American citizen, David Lubin, and as a result of the initiative of the King of Italy. The International Institute of Agriculture has its seat in Rome. Its object is to study agricultural questions, technical and economic, and to present for the approval of governments measures for protecting interests common to farmers, and for bettering their condition. It publishes statistics on the condition of crops, on prices, and on farm wages in the several countries. In 1904 a similar organization, but rising entirely from private initiative,

had been founded in Zurich for the cotton industry, the International Cotton Federation.

The advantages of quantity production, which brought about the concentration of industries within certain countries, and the profits accruing from a limitation of competition on the home market, have given rise to understandings between great national industries. The development of international competition has brought about in certain industries similar understanding concerning the markets of the whole world, providing either for a division of the territory or for a determination of the general basis of contracts, especially prices and rates. The former type of understanding has been applied in particular in the steel industry for certain important items like rails and structural steel, and in the plate-glass and explosives industries. The second type has been applied in ocean transportation, where shipping rings have become a characteristic feature, declared to be necessary to the interests of the shippers themselves, in order to ensure the operation of regular lines with dates of sailing well distributed between the several companies, and a greater stability in rates. Parallel to these understandings, relations have been developed across the boundaries between the labor syndicates of different countries, with a view to increasing their power in the defense of their common interests.

Not less important than these international industrial agreements is the community of interests created during the last half century between the different countries in order to facilitate the exportation of capital. A large number of securities, both public and private

issues, have now an international character; they are bought and sold in all the large stock exchanges, and they serve as a basis for credit operations in the banks of all countries. They may be used, equally with goods, to adjust the commercial balance among the several nations. Beside these securities there are others negotiable in a narrower field, which play an important part, nevertheless, in the relations between a limited number of countries. Such securities create financial interdependence of the countries, and this, added to their economic interdependence, has given such a complex character to the economic system of the present world.

In the twenty-five years preceding the Great War this interdependence of nations grew rapidly. An ever greater division of labor, made possible by the increase of means of transportation, created, in spite of customs barriers, an international economic community independent of political frontiers. It was already so extended that financial or economic crises arising in one country always had their repercussions, more or less intense according to the importance of the crises, in other countries. The common interests of nations had become so important that one began to hope that the prospect of the utter disorganization which would inevitably result from a war involving the great powers might, if only at the last minute, prevent a break. In a most successful book published at the opening of the twentieth century, *The Great Illusion*,⁴⁷ Mr. Norman Angell endeavored to prove the idea that a war in our

⁴⁷ Norman Angell, *The Great Illusion*, a study of the relation of military power to national advantage, 1909.

times could not be profitable to the victors. "The telegraph," he said, "involves a single system of credit for the civilized world, that system of credit involves the financial interdependence of all states; that financial interdependence involves peace." The thesis, from the strictly economic point of view, was true; a general war, in this world where economic internationalization had already assumed such great importance, must unavoidably bring a catastrophe, from the effects of which the victors could not escape. Besides, no one then imagined how formidable such a catastrophe would be. But Mr. Angell underrated the power of national sentiment, which in a clash necessarily prevails over purely economic interests.

CHAPTER V

SEARCH FOR POLITICAL EQUILIBRIUM

THE defeat of France in 1871, the peace conditions imposed by the victors upon the vanquished, the proclamation of the German Empire, all events that were to have so weighty consequences upon the evolution of the present-day world, did not disturb the serenity of England, then at the apogee of her economic and political prosperity. They did not diminish the supremacy she had been enjoying ever since the fall of the first French Empire. First of the nations to take the road to industrialization, England had found thus a fortune that made her the wealthiest state in the world and allowed her to maintain an unrivaled navy, assured of full freedom of action by her naval stations in all the seas. Confident in their uncontested domination of the oceans, the English had no fear for the security of their island or of their trade. They had almost ceased to be Europeans, for their activity was concerned mainly with developing the resources of countries overseas. But one eventuality in Europe they dreaded, the appearance of a power strong enough to subject the continent to its hegemony; and any such development they determined to prevent. The France of the Second Empire had for a time caused them worry, but the

defeat that came to check her rise dispelled their cares. They did not foresee that in less than a quarter of a century the new Empire would become a dangerous competitor in the economic field and that, intoxicated by its successes and its rapidly acquired wealth, and goaded on by its needs, real or fancied, it would attempt to attain the continental hegemony in order to be able to vie with the British Empire and eventually to supplant it.

The first effect of the German victory was to set on foot a search for a new political equilibrium in Europe. The German Empire at its birth included but 44,000,000 inhabitants, only 5,000,000 more than France. The basis of its economic system was still, as for France, agriculture. France had great superiority in wealth, as was evidenced by the rapidity with which she was able to pay the heavy war indemnity imposed upon her by her conquerors in the hope that this indemnity in addition to the loss of territory confiscated would prevent France for a long time from regaining her rank as a great power. Her prompt recovery caused serious disquiet to Germany. Bismarck thought it wise to strengthen the Empire by an alliance with Austria. This alliance, concluded in 1879, three years later through Italy's adherence gave birth to the *Dreibund*, which was to last thirty-two years and to secure for Germany predominance in Europe. During this long period, thanks mainly to the longevity of the Emperor of Austria, she easily preserved her authority over the government at Vienna; though she never had the same feeling of security with the government at Rome. Italy had thrown herself into the arms of Germany in a

fit of spite, as a consequence of the French revival of colonial expansion, which Bismarck had observed with pleasure. The proclamation of a French protectorate over Tunis brought to naught long cherished Italian ambitions. But the *Dreibund* never gave Italy the advantages she had hoped to find in it. Geographically an exclusively Mediterranean power, Italy revolved outside of Germany's orbit; and being poor, she was in need of financial aid, which her ally, engrossed in her own development, was unable to grant. These political and financial considerations led Italy, though a member of the *Dreibund*, into more than one flirtation with rivals of her allies. The abrogation of her commercial treaty with France was for her a costly experiment, and she had to acknowledge finally that she could not do without the French market. Furthermore, the inability of Berlin to supply her with the credits she needed made Italy wish for admittance to the Paris Bourse. The economic crisis in Germany in 1893 put an end to her hesitation. Italy before long made a *rapprochement* with her neighbor, the first manifestation of good understanding being a new commercial treaty (1898), which led shortly after to a political entente. "The powerlessness shown by the German money market to act as Italy's banker, the need of the latter young country's continuing her economic development and having the aid of other nations richer than herself, together with the fact that the Paris money market has once more assumed the rôle of bankers to Italy, these considerations impose on the Government a policy which shall be in perfect accord with that of France," wrote a contemporary Italian publicist of

repute.⁴⁸ On the other hand, being a sea power, Italy could not afford to incur England's enmity, against which Germany would have been unable to protect her. The weakness of the economic basis of the Triple Alliance has always been of serious concern to German statesmen. This accounts for the plans for a customs union of Central Europe put forward by economists around 1900, plans which the fear of American competition helped to make popular. But the divergencies of interests among the allies were discovered to be so manifold whenever one went to the bottom of the matter that none of these plans was ever taken up seriously by the various governments; their supporters had to content themselves with the creation in 1904 of an Economic League of Central Europe (*Mittel-europäischer Wirtschaftsverein*). Hence also the interest manifested by German financiers in Italy, which showed itself in the establishment of close relations between German and Italian finance and industry, connections tenaciously maintained with a political aim as well as in the interest of business.

France, isolated after her defeat, as a matter of course looked around for support in order to counterpoise the mass of the *Dreibund*. Her colonial policy after 1882, which she considered necessary as much from the economic as from the political standpoint, in order to ensure her prosperity and her rank as a great power, unhappily brought her into opposition with England. She found in Russia the support she was looking for. The latter, backward economically, was in

⁴⁸ G. M. Flamengo, *Les raisons financières de l'amitié franco-italienne*; quoted by André Tardieu, *France and the Alliances*, 1908, p. 89.

sore need of foreign capital. Germany was not in a position to supply her with it, and England was hardly desirous of helping out the Russian Empire in its historic drive toward an open sea and Central Asia. France stood ready as the only country able to satisfy Russia's need. But Bismarck, much disturbed by the prospect of a Franco-Russian alliance, managed to prevent its consummation as long as the direction of German policies was entrusted to him. In 1888 the admittance of Russia to the French financial market paved the way for a *rapprochement* between the two countries; three years later the financial entente led to the political alliance. France then became Russia's banker and in less than twenty years she advanced, either to the government or to private industrial corporations, over twenty billion francs. This kind of cooperation in the economic and financial field called for cooperation no less close in foreign policy. It undoubtedly gave to the country that lent such timely aid, the right to offer advice to its ally whenever it launched into plans that might jeopardize its power without any possible return for the common interests. It is to be regretted that French statesmen did not find it possible, with the authority conferred upon them by this situation, to stop Russia in her adventurous drive toward the Far East, where she was to clash with Japanese power.

England watched with satisfaction the efforts of the continental nations to bring about a political equilibrium. The existence of such equilibrium allowed her to be less attentive to purely European questions. Confident in her threefold supremacy, economic, finan-

cial, and naval, proud of her colonial empire and of her dominions, where young Anglo-Saxon communities were growing up, she continued in her policy of "splendid isolation," determined to preserve a complete freedom of action. The activity displayed by France outside of Europe from 1880 onwards had caused her real displeasure, and in 1899 England sought to halt further French expansion upon the occasion of the settlement of the unpleasant Fashoda incident. Even then, however, as she was manifesting her superiority in such a brutal manner, the primacy in which she gloried had begun to wane. She was no longer able to ignore the efficient competition waged by German industry against her own; and Germany in the pride of her newly won wealth was not slow, while remaining a great military power, to aspire to the rank of the second naval power. The Transvaal war, so costly in men and money, was the occasion on which England sensed the general antipathy of her European neighbors, and after much searching of heart she confessed to herself that a great change had befallen her world situation within the last few years. In advance of all other nations she had known how to take advantage of the economic revolution as a means of building up her power; first of all nations she had formulated a world policy. The nineteenth century had been her century; at the dawn of the twentieth, she saw threatening rivals appear. In order to preserve the supremacy she felt escaping from her, she had for a time pinned her hopes to the formation of a British Federation that would forestall the dangers of rupture in her vast empire and allow it to attain a degree of power and wealth such as no other

nation could ever aspire to. The realization of that brilliant dream seemed singularly difficult when the manifold problems it involved were closely examined. Moreover, the facts showed that many more years must elapse before the daughter nations would be in a state to bring to the mother country the aid in wealth and power expected of them. To the 41,000,000 inhabitants of the United Kingdom, the Dominions added only 10,000,000 whites, while Germany numbered already 56,000,000 inhabitants, the Russian Empire 129,000,000, the United States 76,000,000. However rich England was, the ever increasing burden of her navy was beginning to weigh heavily upon her; in order to insure the security of the Empire and of its trade, the Admiralty now required as a basis for her power the two-power standard. In this race of armaments, in spite of her entreaties, the Dominions as yet brought to her only very slight help. British statesmen then understood that to cling any longer to a policy that had become a tradition was to expose the country to dangerous risks; the moment had come to abandon "splendid isolation"; they must openly contemplate a policy of ententes and alliances. It is to England's credit that she was the first to realize the far-reaching effects the economic changes of the past fifty years had brought into general politics. These were no longer exclusively European; new forces had entered into action, which had to be taken into account. When in 1901 a Japanese envoy came to Europe to seek support for his country, the British government seized the occasion that the French and Russian governments let slip⁴⁹ and the

⁴⁹ André Tardieu, *France and the Alliances*, 1908, pp. 218-221.

following year the Anglo-Japanese Alliance was concluded.

Japan deeply resented the attitude of Russia, Germany, and France, who, after her victory over China in 1895, had opposed her establishment on the continent, where barely three years later the great European powers themselves took up positions of vantage in anticipation of a partition of the Chinese Empire. Japan meanwhile was silently making ready to execute the task she had assigned to herself, that of leading the yellow world to present-day Western progress. To do this she must become a great industrial power, the only way to acquire the requisite wealth to meet military and naval expenditures involved in the expansion policy she meditated. She lacked capital to hasten her own transformation; and she expected the English alliance to supply it by opening to her the London money market. Moreover, the alliance placed her on an equal footing with the Western nations, by pledging her ally, in case she should be drawn into a war with another power, to intervene and prevent other nations from coming to the aid of her adversary. The aim of the treaty was the maintenance of the *status quo* and general peace in the Far East. England gained the help of a nation already well armed for the defense of her interests in that remote area. This entente allowed her to reduce the naval forces she had been keeping up in the Pacific, and to develop a plan to secure her safety, jeopardized as it was by the growing importance of the German navy, by concentrating in the North Sea the best elements of her fleets.

This treaty excited deep astonishment in Europe. It

was the recognition of the fact that the separation so long maintained by the obstacle of distance between these two great centers of civilization, the Far East and the West, was now abolished. England had come to a realization that European equilibrium was no longer adequate for the maintenance of peace, and that it must be succeeded by world equilibrium. She had boldly laid its foundations through her alliance with Japan. Alarmed at Germany's increasing industrial competition and her zeal for a larger navy, fearing the Kaiser's game with France, whom he had so far vainly attempted to coerce both by flatteries and threats, England made up her mind to effect a *rapprochement* with France. Heretofore colonial rivalry had divided them, but now a higher political interest, the preservation of their safety, advised them to come to an agreement. In April, 1904, all colonial differences that separated them being settled, the Anglo-French entente was added to the Anglo-Japanese Alliance.

The following year Germany thought she could take advantage of the weak state of the Dual Alliance, consequent upon the defeat just suffered by Russia in the Far East, to assert her supremacy. She requested an international conference to settle the Moroccan question. The Algeiras Conference (1906) was, however, a disappointment to her. Austria seconded her but weakly; while Italy, having in mind her own Mediterranean ambitions, stood by France, whom Russia, England, and the United States also supported. A few months later a series of agreements consolidated the new political equilibrium. England had renewed in

1905 her alliance treaty with Japan.⁵⁰ In 1907 Russia, and afterwards France, signed agreements with the latter for the maintenance of the *status quo* in the Far East. Finally, in the same year, England and Russia put an end to their long misunderstanding by an agreement fixing the boundaries of the respective spheres of influence each recognized the other to possess in Central Asia.

The United States was now the only great power to persevere in the policy of isolation. It had obtained from the European nations the recognition of its hegemony around the Caribbean, and it was building fortifications at the Panama Canal without arousing any protests. At the Pan-American Conferences of 1906 and 1910, the United States endeavored to remove the feeling of distrust that this policy had awakened among the South American republics. Its statesmen took every available occasion to declare that their country had no desire for territorial expansion. Some prominent publicists proposed the Amazon as the

⁵⁰ The treaty of alliance between Great Britain and Japan, concluded in 1902, had as an object only the maintenance of the *status quo* and of general peace in the Far East. At the time of the renewal of the treaty in 1905 its object was extended to the consolidation and maintenance of general peace in the regions of Eastern Asia and India. At the third renewal in 1911 nothing was changed in this respect but Great Britain took care to stipulate expressly that in case one of the parties should conclude a general treaty of arbitration with a third power, this party would not be compelled, in order to support her ally, to declare war on the power with whom she had a treaty of this nature. This was in recognition of the proposed arbitration treaty which Great Britain and the United States had signed a short time before. The Senate, however, refused to ratify this treaty. But in 1914, the two countries concluded an arbitration treaty that differs little from the general treaty specified in the Anglo-Japanese treaty, and the British government immediately notified the Japanese government, who acquiesced, that it regarded the treaty of 1914 as equivalent to the one first planned.

southern limit for the application of the Monroe Doctrine, which had come to be regarded in the Southern Continent as synonymous with imperialism. They invited the South American republics to help them insure the *Pax Americana*. In the Far East the United States did not go beyond the defense of the open-door policy; and it endeavored to prepare its wards, the Filipinos, for eventual self-government. It developed its navy, but neglected to fortify its naval bases in the Pacific.

The financial crisis of 1907 brought to a sudden end many a dream of the preceding period of unequalled prosperity. Only for a short time did the Americans cast their glances beyond their boundaries. Now again they became engrossed in the exploitation of their own rich territory. For their exports there was no need to seek markets, inasmuch as Europe was in want of the excess of raw materials that they themselves did not utilize. It was the same with foodstuffs, of which, however, the margin available for exportation showed a tendency to decrease. Of manufactures, despite rapid progress, they exported regularly but little. They needed foreign capital of course, but this was easily obtained from European capitalists, who were eager to make good investments. The United States, enjoying a well balanced economic system, in which agriculture predominated, was still able to preserve the illusion that it constituted a world almost complete and that it could continue without peril its traditional policy of isolation.

THE AMBITIONS OF GERMANY

The whole body of treaties and agreements arrived at during the first decade of the twentieth century, by

fixing the limits of the spheres of influence that the signatory powers mutually recognized as belonging to one another, was bound to minimize the dangers of economic imperialism. But Germany had seen with apprehension the signing of these agreements because she interpreted them as an encircling policy pursued obstinately by England to check her progress. She was proud of her rapid development and of her newly won power.

"The German Empire to-day," wrote Prince von Bülow, "is a great world power, not only by virtue of its industrial and commercial interests, but of its power in international politics; its power in the sense that its arm can reach to the farthest corners of the world, and that German interest can be injured nowhere with impunity. The sphere of German power has literally been extended over the whole world by the construction of our fleet, so that it can protect German interests scattered over the face of the earth."⁵¹

This empire, however, did not answer the needs of the Germans. The geographical situation of their country, now that they were obliged to import such large amounts of foodstuffs and raw materials, for which they had to pay with the exportation of manufactured articles, seemed to them unfortunate; they were far from the great sea routes, access to which might be forbidden them. "If the English prohibit our passage along their coasts, we are caught in a trap. How much freer is the coast of France on the Ocean itself!"⁵² They deplored the scant area of their empire limited

⁵¹ Prince B. von Bülow, *op. cit.*, p. 98.

⁵² Paul Rohrbach, *op. cit.*, p. 69.

by the rigor and uniformity of its climate to a small variety of farm products, and not complemented by colonies located in more favored regions able to compensate for the deficiencies of the home country.

"Foodstuffs have to be imported in large quantities to satisfy our present population. The greater part of our industry also can exist only if its needed materials are imported. . . . England and France, on the contrary, can supply from their transatlantic possessions whatever they lack themselves, and such gigantic states as Russia and the United States are capable of an autonomous existence within their own boundaries." ⁵³

These advantages were always present in the minds of German statesmen and business men, since industrialization, so tenaciously pursued, had now reached such a degree that the equilibrium of their economic system had been irretrievably lost. Only the building of an immense empire, they thought, stretching like that of England over various climates, could safeguard Germany from the dangers born of her very prosperity. Moreover, this was the path along which contemporary discoveries seemed to them to direct humanity.

"The wealth of the available scientific material today is so enormous compared with that of the former ages, that only a big nation can master it. . . . In future the smaller peoples will have only the choice to decide with which one of the big nations they will voluntarily combine, or to which one of them their geographical position will commit them." ⁵⁴

⁵³ Paul Rohrbach, *op. cit.*, p. 68.

⁵⁴ Paul Rohrbach, *op. cit.*, p. 52.

And these ideas gave birth among the Pan-Germans, whose influence was being more and more asserted, to plans of a wide scope.

"If one examines all our history and the modern economic state," said Fritz Bley, "one must perforce come to the incontrovertible conclusion that Germany, Austria, Italy, the Balkans, Holland, Belgium, and Switzerland, and if possible the Scandinavian countries too, ought, together with their colonies, to join in a common Customs Union, following a policy of free trade or at least reduced protective tariffs as among each other, but enforcing a highly protective system against all outside nations. In no other way can they hope to safeguard their economic existence against the gigantic Russian, British, and Pan-American Empires." ⁵⁵.

The realization of this dream, however, clashed with the national feeling of these peoples. It might have become possible but only as the result of a political cataclysm. Germany, however, wished to extend her activity beyond Europe, and the Near East seemed to her a peculiarly well suited region. Therefore, while pushing Austria into the Balkans, she undermined English influence in Constantinople, so as to be able to exercise freely her policy in Asiatic Turkey. In the meanwhile she continued to watch attentively the events that involved the future of European colonies in Africa.

The concession obtained from the Sultan for the construction of a railroad to link the Bosphorus to Bagdad and to the Persian Gulf had a twofold charac-

⁵⁵ Fritz Bley, *Die Weltstellung des Deutschtums*, 1897, quoted by Charles Andler, *op. cit.*, p. 243.

ter, strategic and economic. This rail line was to be a menace to British power in India, and a branch directed southward would help to disturb her domination over the Suez Canal. From the economic point of view, its junction with the European system, through a tunnel under the Bosphorus, would put Antwerp in direct connection with the Persian Gulf and thus would be the means of diverting part of the traffic that then went in British shipping. Finally it was to make possible the development of Asia Minor, as yet thinly populated, and of Mesopotamia, to-day a semi-wilderness but in ancient times renowned for its fertility. A British engineer, Colonel Willcocks, the head of the Indian Irrigation Service, had for some time already been grappling with this problem, well suited by its importance and its wonderful possibilities to tempt a mind capable of foreseeing a distant future. It did not seem to him impossible to reestablish on the banks of the Euphrates a civilization worthy of that of Babylon; and in a sensational address in Cairo in 1900, he clearly put the question, Will the great canal, revived from the times of the Babylonian kings, be the work of the Emperor of Germany or of the Emperor of India? ⁵⁶ In Africa the Germans were convinced that the then present partition of the vast continent was not final, but that an occasion would arise for such a rearrangement as would allow them to acquire the extent of territory to which they thought their rank in the world entitled them.

Did Germany encounter among the powers that, having preceded her in the policy of expansion, owned

⁵⁶ Paul Rohrbach, *op. cit.*, p. 161.

a wide colonial domain, an irreducible opposition to the realization of her designs? These powers certainly did not withdraw before her with good grace. But they had a clear notion of the danger to peace roused by irreconcilable opposition; and to insure the maintenance of peace they ended by yielding to German exactions. In the 1911 agreement, the object of which was to settle the Moroccan question, France made important concessions to Germany. The Colonial Secretary, von Kiderlen Wachter, had declared in the course of the negotiations that his government made the grant of an access to the Congo River a *sine qua non* condition of the agreement, and the French government had ceded two strips of territory both starting from the Cameroons, and extending across French Congo to reach the one the right bank of the lower Congo River and the other its great tributary, the Ubangi. It had besides agreed to submit to the decision of Germany the question of the exercise of preferential rights that France owned over the territories of Belgian Congo, in the event of their change of ownership. All hope of Germany's extending her colonial domain in Equatorial Africa was therefore not stifled.

In 1901 the Society of Ottoman Railways in Anatolia, founded twelve years earlier by the Deutsche Bank and the Dresdner Bank, had received the formal concession for the extension of its lines from Konia to Bagdad and to the Persian Gulf. The execution of this new work met with England's opposition as she did not wish a terminal under German domination on the Persian Gulf. In 1913 an agreement was reached after laborious negotiations. The terminal of the Bagdad

line was to be at Bassora, two British administrators were to be members of the Company's Board of Administration, and British goods were guaranteed an equality of rates over the whole line. A few months later, French financiers renounced in favor of the Germans the share granted to them in the capital of the Bagdad Company, and in exchange Germany recognized French supremacy over the railways to be built on the coast of the Black Sea and in Syria. All obstacles to the realization of the great German plan were thus removed.

Shortly after the conclusion of the agreement about the Bagdad railway (Bagdadbahn), England and Germany arrived at an understanding as to the working of any oil fields that might be discovered in Mesopotamia. The use of crude oil as fuel for warships had given considerable importance to this product. Neither of the two countries had oil in its territory. Mesopotamia was considered abundantly provided with it. Germany owned rights, held from the concession of the Bagdad railway, over oil fields situated within a certain distance on both sides of the line, while England had obtained from the Sultan a special concession. The agreement reached provided for the creation of a British company in which the British share was seventy-five per cent and the German twenty-five.

Lastly, during the winter of 1913-1914, negotiations took place between the British and the German governments for their mutual recognition of spheres of influence in the Portuguese colonies of continental Africa. Mozambique was recognized as England's field of action and Angola as Germany's; and should Portugal

ever decide to sell her colonies, their final disposition was to be made in the same fashion. Even before the negotiations were concluded, a committee on projects was constituted in Hamburg for investigating the agricultural and mining possibilities of Angola, and the great German banks were trying to get into possession of the railway then under construction from Lobito Bay to Katanga, which had got into financial difficulties.⁵⁷

The Cologne *Gazette* wrote on May 2, 1914:

"All serious statesmen are aware that we shall not let ourselves be eliminated from the economic competition in the various commercial regions of the world without doing the utmost to prevent this result. This lesson was clearly taught by our action in Morocco." ⁵⁸

⁵⁷ Baron Beyens; *Germany before the War* (translated by P. V. Cohn), 1916, p. 104, and G. P. Gooch and J. H. B. Masterman, *A Century of British Foreign Policy*, 1917, p. 106. In his memoir entitled *My London Mission, 1912-1914*, dated August, 1916, and published in the *Munich Post* for March 26 and April 5, 1918, Prince Lichnowsky, who was the German ambassador at London at the time of the outbreak of the war, has several pages on both the Portuguese and Bagdad treaties. As to the former he declares it was practically finished in May, 1913, and that it was paraphrased by him and Sir Edward Grey in August of that year. The objections of Wilhelmstrasse, however, delayed its completion. It was not until the end of June, 1914, that the Imperial Chancellor gave his consent to its being signed and published. Even then the official approval was not obtained by the ambassador until the end of July, so near the opening of the war that the treaty was never put into execution. "Had these two treaties [concerning the Portuguese colonies and Bagdad]," concludes Prince Lichnowsky, "been executed and published, an understanding with England would have been reached which would forever have dissipated all doubts as to the possibility of an Anglo-German cooperation." See the English translation as filed with the Postmaster at New York on June 26, 1918, and published by the Association for International Conciliation in *International Conciliation*, No. 127, June, 1918, pp. 57-73.

⁵⁸ Quoted by W. Morton Fullerton, *Problems of Power*, 1920, p. 227.

The negotiations coming in succession after the second Moroccan incident proved that Germany was not confronted with irreducible rivals. The path of discussion remained open. But her attitude, her constant manifestations of bad temper, the immoderate claims of the Pan-Germans, caused serious concern to observers. An American writer, Mr. W. Morton Fullerton, who had been living in France for several years, said at this time (1913) in a work by means of which he

"dreamed . . . of preparing public opinion in the apathetic British and American worlds for that European War which . . . he descried on the horizon." "There are, no doubt, many indications that the German rulers may eventually come to regard a war as the sole situation for the life and death economic problems with which they are confronted. France, England, and the United States appear to Germany to be blocking her way. The nature of the sole situation that can maintain the peace of Europe has already been stated. Germany must find some means of convincing the powers of the purity of her intentions. She must cease her bluff and her bluster; she must become convinced that no nation in the world is capable of contemplating an attack on her. . . . Sir Edward Grey excellently described the present situation when he declared that if German policy really aimed solely at rendering Germany powerful, and not aggressive, 'within two or three years every chance of war would have disappeared.' " ⁵⁹

Economic imperialism that for a quarter of a century had been dictating the policy of the great powers, had aroused keen antagonisms between them. In Europe,

⁵⁹ W. Morton Fullerton, *op. cit.*, pp. 232-233.

the German policy, ever increasingly aggressive, was the reason for the maintenance of that state of armed peace which absorbed such a large share of the activity of the young generations. At the same time the sea powers, anxious for the safety of their distant territories and for the protection of their trade on the ocean, competed in a mad race of armaments. Military and naval expenditures rose unceasingly during this period at an ever increasing rate of progression; and they ended by constituting a crushing burden upon the populations. Some have wished to see in this general policy of imperialism an inevitable cause for war. This would in great measure diminish the responsibility of Germany, when in August, 1914, she declared war on Russia and France. This excuse has not been accepted by the highly intelligent German socialist to whom the new government, on the morrow of the defeat, committed the task of searching the archives of the Ministry of Foreign Affairs for documents relative to the explosion of the war. In his book *How the World War Started*, written as a result of his investigations, Karl Kautsky says:

“The baneful effect of Germany’s naval policy, as senseless as it was provoking, was further increased by her dogged opposition to all efforts towards an international understanding for a general reduction of war armaments and for the peaceful solution of international conflicts through arbitration. . . . At first the German policy did not mean a war of Germany against the whole world, but rather the danger of such a war. In proportion as she became more and more surrounded by other nations, Germany in her own interest ought to have avoided any provocation that might have impli-

cated her in a conflagration. Anyone who affirms that an imperial policy would under any circumstances have brought on war, whatever the German policy, reminds one of a person who would defend a group of street arabs playing at throwing lighted matches into a barrel of gunpowder. It is not these street arabs, this subtle defender would say to excuse them, who have caused this explosion, the fault lies in the existence of gunpowder in the barrel. If there had been water in the barrel instead of gunpowder, there would have been no explosion. But in our case the gamins knew there was gunpowder; they had put it there themselves in rather large quantities.”⁶⁰

Deliberately Germany had jeopardized the equilibrium of the complex economic system of the world; in which nations had become so closely dependent upon each other, a system built up in the course of the preceding fifty years, parallel with the progress of a civilization in which we had legitimate pride because it had so largely improved the material welfare of the masses throughout the world. Disquieted by the unstable economic equilibrium brought upon her by the excessive degree of industrialization she had attained, intoxicated by her quick fortune, athirst with ambition, Germany decided to trust to the fate of arms. Confident in her military strength, kept up with jealous care ever since the birth of the Empire, and in her naval power, young of course but able in her opinion to cope with England's, she looked forward to a short war, on the conclusion of which she, the victor, would enjoy a hegemony henceforward uncontested in continental

⁶⁰ Karl Kautzky, *Comment s'est déclanchée la guerre mondiale*, French translation, 1921, pp. 21, 24. -

Europe. Then she would be in a position to establish at one stroke, with the spoils of the vanquished, the immense world empire she had been dreaming of. And if the war had been as short as the Germans hoped, in spite of the ruins and bereavements it would have caused it might have proved a good piece of business for those who had the cynicism to unleash it.

PART II
THE WAR AND ITS CONSEQUENCES

CHAPTER VI

ECONOMIC SOLIDARITY DURING THE WAR

THE war declared by Germany, in which all the great European powers eventually found themselves engaged, suddenly disorganized the economic system upon which rested the present world. The organs of credit, an essential element of modern economic life were the first to feel its effects. There resulted a wholesale tottering of the financial mechanism not only among the belligerents but also among the neutrals. And this was the first manifestation due to the war of the close economic solidarity in which nations live today. The financial crisis that broke out in August, 1914, was unprecedented both in its intensity and in its scope. London, the financial capital of the world, staggered for several days; her rôle as the international clearing house, in which she took so much pride, came near being fatal to her. In the last days of July stocks poured into the Stock Exchange from all countries on the continent, for everyone, fearing the worst, was attempting to get money; owing to the relentless fall of price quotations and to the uninterrupted inflow of large sales orders, the Stock Exchange to avoid a catastrophe closed its doors on July 31. The acceptance houses, which specialize in the acceptance of drafts drawn on them from all parts of the world, thus guar-

anteeing the settlement of international commercial operations that are negotiated through the instrumentality of the London money market, found themselves unable to meet their obligations. In July, 1914, the value of the acceptances received by these concerns and by foreign banks established in London was between 300 and 350 million pounds sterling. To these were added 70 million worth of acceptances by the joint-stock banks. No more remittances were received from abroad and their debtors, belligerents and neutrals alike, defaulted. Nothing short of a measure of public safety such as was adopted by the government saved the situation: it made itself a guarantor of the Bank of England for the losses it would incur in advances made to the acceptors of these drafts to enable them to be honored. Following mobilization enforced currency was established in all the belligerent nations except England. However, even in England, although not proclaimed, it was practised in fact. Moratory measures were adopted to protect the banks. Neutrals did not escape this general disorganization of credit; all had to resort to an extraordinary increase in fiduciary circulation, and more or less extensive moratoria were proclaimed in almost every country. Even in the United States the crisis gave rise to grave anxiety; on July 31, the New York Stock Exchange had to close; and the Cotton and Wheat Exchanges also suspended their operations. By tacit agreement an unofficial moratorium was established for a few days in the financial district in New York. The sudden stoppage of navigation on the Atlantic, caused by the apprehension of war risks, complicated the situation. The resump-

tion of trade relations with Europe when the mastery of the sea was secured by the Allies, facilitated the liquidation of the American crisis; though the crisis continued until early in November.

To the disorganization of credit was added that of sea transportation. German merchant vessels were denied access to the seas, and the Allies had to assign a large portion of theirs to the auxiliary services of their navies and to the carrying of supplies for their armies. Established commercial currents were much disturbed, and equilibrium of exchanges was upset. The Allies demanded of the neutrals increasing quantities of foodstuffs and raw materials, and also manufactured articles, while on the other hand their capacity for exportation was considerably reduced, and in some cases almost nonexistent. During the period preceding its entrance into the war the United States actually became an industrial annex of the Allies. Unable to secure safety for her ships, Germany could have with the American market only indirect relations carried on through the intermediary agency of neutrals, relations made very difficult after a time by the ever closer surveillance exercised by her foes.

The invasion of Belgium and of the industrial region of France, the submarine war, and finally conscription, which even England had to adopt, completely disorganized for the Allies the peace-time economic system. Germany also was in the same situation, for to her own loss of men by conscription was added the economic effects of the blockade. When the belligerents realized that the struggle would be of long duration, they gradually created as new necessities arose an arti-

ficial economic system to answer the needs of the war. The pooling of some of their resources became imperative; they had to make the best of those found on their territory because it was essential, in order to burden the financial situation as little as possible, to limit to a strict minimum what they were compelled to buy from the neutrals. Hence the creation of international economic organizations at first merely to obtain information but later to conduct actual operations. As the war continued, dwindling resources forced a surrender of economic freedom and made imperative greater cooperation and solidarity among the belligerents.

The first interallied committee was created to provide the armies at the requisite speed and in sufficient quantities with ammunition, equipment, and food, problems the difficulty of which increased with the number of men under arms and the extension of the battle fronts. It was not long before the governments, in England as in France, were forced to assume control over the fundamental supplies required for the civilian population. The wish to avoid costly competitive buying in neutral markets led to the creation of a common purchasing machinery. The intensified submarine warfare, which decreased the number of available ships, made necessary a continued cooperation for the best utilization of these. The protraction of the war brought among the Allies, despite natural resistance due to national self-esteem, a closer and closer coordination of efforts under common organs of direction in the economic as well as in the military domain. The war economic system was of laborious construction. While its principal aim was to provide for the needs of

the Allies, it also had to prevent the enemy from getting supplies through the agency of neutrals from the overseas markets, many products of which would have been of great help to them. It became really efficient only after the United States abandoned neutrality in April, 1917. Only then could the blockade be strictly enforced. The neutral neighbors of the Central Empires were compelled to submit to the rules that the Allies for their own safety imposed upon them. They were limited in foodstuffs and raw materials to the requirements of their own populations, and these the Allies undertook to get and to transport for them.

The International Commission of Supplies was the first interallied organization. Its object was, at first, the purchase of munitions and military equipment for France, Belgium, Russia, Serbia, and later Italy. Afterwards it became an organ of the general system, and through its agency the small nations made their needs known to the great powers of the coalition, Great Britain, France, Italy, and the United States. In October, 1916, a Royal Commission on Wheat Supplies was created in England to control grains, dry vegetables, etc. Shortly after, an interallied organization, the Wheat Executive, was formed to secure the purchase in common and the distribution among the several countries of these commodities. A special commission constituted in England was entrusted with the same powers over sugar. Similar duties were fulfilled by the Board of Trade for imported meat, and other executive committees dealt with certain other essential products, such as mineral oil, nitrates, etc.

The economic structure of the coalition, built by

degrees and as called for by needs and emergencies, took definite shape only after the interallied conference held in Paris, in December, 1917. It assumed then an aspect a little more logical, and the relations between the several organs were better arranged. Special committees for the several classes of commodities were created to analyze the demands of the members of the coalition in order to group them according to their urgency, and in order to reduce the quantities demanded to the minimum deemed indispensable. The most important committees of this kind were the Food Council and the Munitions Council, followed by the committees dealing with raw materials and certain products of special importance, such as wool, cotton, hides, paper, coal, tobacco, etc. At the top of the organization two councils ruled, the Council of War Purchases and Finance and the Maritime Transport Council. The first had direction over the purchasing organs so as to effect purchases under the best possible conditions, and also the management of the funds of the coalition. It decided upon the financial aid that the wealthier nations could give to those in difficulties, and it provided the means of payment, an especially difficult task for purchases made in neutral countries. Here the question of exchange greatly complicated the matter; the heavy increase of imports by the Allies coinciding with a no less marked decrease of their exports, made impossible a normal adjustment of trade balances, a situation that reflected naturally upon the rate of exchange. The Maritime Transport Council played from the very first an important rôle. The submarine crisis in the spring of

1917 resulted in its becoming the supreme authority in the economic organization. To it fell the delicate task of adjusting to the available means of transportation the purchases sanctioned by the Council of Finance and of making the best of the vessels at its disposal.

The war, by compelling the belligerents to look after the utilization of their reduced resources, led in all the countries engaged in the struggle, to the organization of a kind of State Socialism. This was particularly true of Germany. Moreover, by forcing each group of belligerents into the closest possible economic solidarity, it brought about the beginnings at least of an international socialism. Nevertheless, the international economic structure was never more than roughly worked out nor did it ever function harmoniously. Modern life is too complex ever to be wholly controlled by administration methods. Some of the difficulties encountered by the complicated system of war administrative organs are evident from the instances of mismanagement and of excessive expenditures which became known only after the war at the time when certain of these organs wound up their affairs. Without some such system, however, neither of the contending groups could have carried on for so long the gigantic struggle.

CHAPTER VII

THE POST-WAR PERIOD

PLANS FOR THE POST-WAR PERIOD

BEFORE the war was over, some thinkers on both sides were endeavoring to foresee what economic policy would impose itself upon the contending countries at the close of hostilities. In Germany after the brutal aggression that was to have brought prompt and decisive victory had failed, plans were being worked out to revive the idea of a close economic union of the Central powers which should serve as a basis for a vast political union able to hold its own against such immense empires as Greater Britain, the United States, and Russia. The blockade of Germany made her keenly desire an economic union, accompanied if possible by a political union, that would be self-sufficient in foodstuffs and in essential raw materials, and that would find within itself an adequate market for at least the major part of its industrial output. This grouping could only be the one already conceived long before the war as the basis upon which Germany would be able to rear the vast Empire that her statesmen contemplated for her. The close union brought about by the war pointed out the possibilities of a continuation of a similar union after the conclusion of peace. The mem-

bers of such a union might well be the industrial nations of Germany and Austria-Hungary, to which could be joined the agricultural countries of the Balkans; and Turkey with her Asiatic territory would also be a logical and desirable number. *Mittel-Europa*, a book by F. Naumann, published in 1915 and devoted to the study of this plan, had a large sale in the Central Empires. "As long as the sun will shine above our heads," wrote the author, "our aim must be to rank among the world economic powers. To attain it, we must win the adherence of the other states of Central Europe." He had to confess, however, that even the realization of this plan would not satisfy German ambitions. "Three great organisms . . . are relatively complete: Great Britain, America, Russia. Each of these is more potent in extent and in mass than Mid-Europe can ever be. In the most favorable event . . . Mid-Europe will only be the fourth World State."¹ The Central Empires would find in the Balkan peninsula and in Asiatic Turkey extensive agricultural territories with a population which would offer outlets to German industrials, but they would still lack tropical possessions, the products of which have become so important. Naumann therefore believed that at the discussion of peace conditions Germany ought to surrender some of the invaded territories she occupied in Western Europe at the time of his writing in order not to cease to be a colonial nation.

However attractive this ambitious plan seemed to be, it was open to serious criticism, and even its most hearty supporters had to acknowledge that its realiza-

¹ Fr. Naumann, *Central Europe*, 1915, English translation, p. 182.

tion would arouse many difficulties. The substitution for pre-war individualistic nationalism of an organization that should bring about a kind of supernatural economic unity could not fail to please the Germans, convinced that her power would allow Germany to hold this organization in tutelage. But would she be able to obtain the adherence of the other confederates to this plan? Each negotiation for the renewal of commercial treaties had shown how difficult it was to bring into agreement the competitive interests of the several countries. Rival aspirations existed within the same empire as in the case of Hungary's aspirations to emancipate herself economically from Austria, for which purpose she was developing manufacturing industries in her territory. The realization of this plan seemed therefore to discriminating minds most precarious. The very fact that such ideas as these were being discussed indicated that economic rivalry between the groups of nations now at war would probably continue even after military hostilities had ceased. The Allies thought it wise to take precautionary measures against the eventual realization of plans agitated in Germany. In an economic conference held in Paris in June, 1916, representatives of the belligerent states (America had not yet abandoned neutrality), studied "such measures as would, on one hand, secure for them as well as for all neutral markets full economic independence and observance of sane trade practices, and on the other hand, facilitate the organization of the permanent régime of their economic alliance."⁶² To attain this

⁶² Resolutions adopted by the Economic Conference of the Allied Governments, held in Paris, June 14-15-16-17, 1916.

goal, the Allies decided to "take without delay requisite measures to free themselves from all dependence upon the enemy countries in the matter of raw materials and manufactured products essential to the normal development of their economic activity." These measures were to help to secure their independence not only in the matter of sources of supply but also in financial, commercial, and maritime organization.

The Mittel-Europa plan had a well defined character of economic imperialism. Germany contemplated it as the only means, now that the war could no longer give her the advantages she had expected from it, to insure her economic supremacy in Central Europe and to lay the foundations for a customs union that would perhaps be, as the German Zollverein had been, the origin of a future political union in which Germany would rule. The plan of the Allies had an altogether different object. In face of the firm resolve of their foes to continue an economic war after the signing of peace, they planned to preserve among themselves closer economic relations than they had had before the war, in order to render their countries as independent as possible in the matter of products indispensable to their existence and their defense.

THE ABOLISHMENT OF WAR-TIME ECONOMIC ORGANIZATIONS

The prolongation of the war with its alternating fear and hope, then, after fifty-two months of struggle, the collapse of the Central Empires, cast these plans into oblivion. But at the 1916 conference the Allies had provided temporary measures for the period of eco-

conomic reconstruction that was to follow immediately upon the cessation of hostilities. They had proclaimed "their solidarity for the restoration of those countries that were victims of destruction, spoliation, and abusive requisitions," and they had "declared themselves in agreement to preserve during the entire period of restoration their natural resources for the allied countries in preference to all others." After the armistice, the countries that had suffered from German devastations demanded the application of the measures decided in 1916. They further demanded that the economic co-operation which had been gradually established during the course of the war should be continued for at least a short period, and that for this purpose the existing interallied economic organizations should be preserved.

Unfortunately an agreement could not be reached on this point. When these pacts had been concluded the United States was not yet a belligerent; and after it entered the struggle on the side of the Allies it did not adhere to these pacts. When the proposal was made to continue for a certain time some of the temporary measures fixed upon in 1916, the American representatives deemed it inexpedient to acquiesce. "It cannot be denied," said one of the experts of the American Peace Commission, "that some of these proposals made a telling appeal to the sense of justice. Their wisdom and their practicability were other matters. It is far from clear that they would have afforded any real measure of relief or that they would have been as effective as unimpeded private enterprise."⁶³ And, accord-

⁶³ Allyn Abbott Young, in *What Really Happened at Paris*; edited by E. M. House and Chas. Seymour, 1921, p. 311.

ing to another expert, "as a matter of fact such control could not be continued without special Congressional legislation, to which the American representatives thought Congress and American producers would very properly be opposed. The control that had been in effect during the war was more or less voluntary, and born of the need of the hour." ⁶⁴

It is true that trade and industry in all countries were longing for the return of the freedom of action that had been denied them during the war, and it was advisable to restore it to them as soon as possible. But it was a grave imprudence to be hasty in discontinuing the cooperation that had been indispensable during the war. A period of transition was necessary. Maintaining for a time a limited cooperation between the Allies and their associates would doubtless have permitted them to examine during the elaboration of the peace treaty certain questions such as reparations and inter-allied debts in a spirit somewhat different from the one that caused the adoption of unfortunate solutions or left the questions with no solutions at all.

THE WORLD IMMEDIATELY AFTER THE WAR

The Great War by its unprecedented scope and by its duration, which no one at the beginning of hostilities would have believed possible, has had consequences more disastrous than the worst predictions that any one dared formulate. Consequences disastrous because of the great number of men at the age of full produc-

⁶⁴Bernard M. Baruch, *The Making of the Reparation and Economic Sections of the Treaty*, 1921, p. 85.

tivity killed, or injured beyond rehabilitation during the course of those fifty-two months; because of the wealth representing the savings of many generations back, consumed with such swiftness for a task economically unproductive; and because of the amount of work performed during this long period in a task of pure destruction. The world emerged from this gigantic struggle very much impoverished, and the economic system reared during the preceding fifty years was in a state of utter disorganization. These consequences were not manifested immediately after hostilities ceased in a manner striking enough to impress public opinion. Privation had been great among neutrals as well as belligerents and many articles necessary to life or at least to well-being were exhausted. It was, therefore, urgent to renew supplies at once. There was in this exigency the opportunity for a temporary resumption of business. The fact that the resulting boom was artificial was disregarded, and then succeeded a period of reckless speculation favored in great part everywhere by financial and credit inflation. Such was the outcome of a financial policy thrown out of balance by the needs of the war. For two years fortune seemed to be smiling on everyone, but then came a crisis formidable in its extent and its intensity which made men fully realize the ruin and wreckage caused by the war. Great empires lie collapsed in a state of confusion out of which it seems impossible that they should rise for many years; wealthy nations have suddenly lost their political and economic supremacy, the work of years undone.

The Russian Empire, which before the war occupied such an important place in the economic world as a producer of foodstuffs and raw materials and as a consumer of manufactured articles, and which offered a wide field for the remunerative employment of the capital available in Western Europe, fell prey to a horrible revolution and ceased to count in the world. Germany, crushed in a defeat which her people refused to acknowledge, was facing the prospect of a long and difficult period of political reorganization, during which the remains of her wealth and the product of the labor of her people would be mortgaged for many years in order to repair the devastations which had been caused by her military policy of brutal aggression and terrorization. The former Austro-Hungarian Empire was a complete ruin destroyed by the explosion of the nationalistic sentiments of the several peoples that had composed it. France, the greatest victim of this war, on whose soil the struggle had taken place almost entirely, the nation that had suffered the heaviest losses in property, France was facing a formidable task of reconstruction. She contemplated it with courage, confident in the spirit of her children and in the aid promised by those allied and associated with her for the war. England, impoverished, her finances embarrassed, her export trade (more important to her than to any other people) deeply disorganized, but having suffered no devastation of her territory, was keen to recover industrial, commercial, and financial supremacy, the basis of her fortune and of her political power.

The United States and Japan, on the other hand,

found themselves in a very different condition in that the war had modified their situation in the world greatly to their advantage.

Japan, faithful to her alliance with England, had offered her aid from the very first and had joined the Allies. She made short work of forcing the German garrison of Kiaochow to capitulate and she had settled herself in the Shantung province. The European powers fighting for their existence overlooked then what was taking place in the Far East. Japan thought the time was ripe to realize the dream that had been haunting her ever since she had so cleverly modernized herself. Resolved to become industrialized, the only means of acquiring the wealth necessary for playing the part of director nation in Eastern Asia, she possessed in her superabundant population the labor she needed, but she lacked foodstuffs in sufficient quantity and she depended upon foreign countries for many raw materials. She held over the northern provinces of China, which had been the object of her policy ever since 1904, secured both and also important markets for her industrial products. Early in 1915 she hoped to be able to realize even more than the ambitions she had so long cherished. In January she presented to China under the form of an ultimatum the famous twenty-one demands. Some of these were intended to ensure her hold over the regions where she was already established by the prolongation of the concessions she held from Russia and from Germany. Another purpose of the demands was to place the Chinese Empire in fact under her protectorate imposing Japanese advisers upon the Peking government to direct it in its political, financial,

and military affairs. The protests of the United States and the advice of England compelled her to abandon the latter group of demands and to moderate the others. Nevertheless she was able during the war, especially after Russia's effacement, to strengthen her situation on the continent in the regions that she most desired. At the same time the absence of Western traders and industrials left free to the Japanese important outlets where they realized immense profits, thanks to which they developed their economic equipment. Japan called home during the war a large part of her foreign debt and was able even to make loans to her allies. All in all she became during the war the predominating power in the Far East.

The war modified still more the situation of the United States. In 1914 it held an important position in the world; but though it had acquired interests in the Far East as a result of the Spanish war, it had not become a world power. The Americans continued to be almost solely engrossed in the development of their own natural wealth although industrial progress during the preceding quarter century had been rapid; nevertheless agriculture remained the dominant element in their economic system, as is shown by the fact that in 1910 the rural population was still more than half, to be exact 54.2 per cent, of the total population. Only a few branches of manufacturing exported with regularity; the American merchant fleet, although important in the coastwise and Great Lakes shipping which was reserved to the national flag, hardly counted at all in international commerce. Finally, the United States was a debtor nation; every year it had to pay to Europe

almost six hundred million dollars. This took the form of interest on the capital invested by the latter in America, remittances by recent emigrants to their relatives in the old countries, the expenses of tourists, and transportation charges for the goods entrusted to foreign bottoms.⁶⁵ Exports of foodstuffs and raw materials were used to balance the account. The European conflict enabled the United States to realize almost at once the dream which had come some fifteen years earlier, and it is now a great world power. It has developed its manufacturing industries in an extraordinary fashion,—in 1920, the rural population was only 48.6 per cent of the total population,—and these industries in the future must export regularly or face a crisis. The ocean-going merchant marine has developed until it ranks a close second to England's. New York became during the war, since the London market was no longer in a position to fill this place, the financial capital of the world and will never lose its international rôle. Lastly the United States is now the foremost creditor nation in the world. It has called home more than two thirds of its stocks held in Europe. During the war the American government made advances to its associ-

⁶⁵ Sir George Paish estimated as follows the financial balance of the United States, *National Monetary Commission*, 1910, quoted in L. C. Marshall, C. W. Wright, J. A. Field, *Materials for the Study of Elementary Economics*, 1913, p. 549 ff.:

	Million dollars
Interests owed to foreign capital invested in the United States, deduction being made of the interests owed to the United States	250
Excess of expenses by American tourists in Europe	170
Remittances by American citizens or residents to their relatives in Europe	150
Rates for ocean freight	25
Total	595

ates of over \$10,000,000,000, and since the armistice it has been estimated that a credit of \$3,000,000,000 more had been established. This latter has taken the form of loans floated in the United States and of advances made by American banks to permit continuance of exportation to countries that are as yet unable to pay short-term accounts for the products they need. Mr. Frank A. Vanderlip reckoned lately that in normal times the United States will receive over \$300,000,000 annually in settlement of its financial balance.⁶⁶ Never before has such a change taken place in so short a time.

THE ECONOMIC CLAUSES OF THE PEACE TREATIES

It was in a world thus transformed, thus shaken to the core by the war, that the Conference gathered to dictate to the conquered the conditions of peace, to decide upon measures aiming to reestablish as soon as possible an economic and political equilibrium, and to prevent, if it were possible, the return of a similar catastrophe. "The mightiest conflict of mankind had just

⁶⁶ Financial balance of the United States in 1923, according to Frank A. Vanderlip, *American Review of Reviews*, April, 1921.

What the United States will receive:

	Million dollars
Interest on private investments and loans	122
Interest on public loans	618
Shipping freights	73
	<hr/>
	813

What the United States will pay:

Immigrants' remittances	300
Tourists' expenditures	150
Insurance and miscellaneous	30
	<hr/>
	480
Balance of receipts over payments	333

come to an end. The cannon's sound had but lately died away; the shock of battle was still upon the world; the aroused primitive passions of nations and of men had only in a small measure subsided; the world's wounds still bled. . . . No one can understand the peace treaty who does not know and cannot measure the human conditions under which it was brought forth." ⁶⁷ The men in power at that time, who were to be responsible before their fellow citizens and posterity for the decisions made, were placed in the most difficult conditions to accomplish the great task that devolved on them.

Having in view the subject that concerns us, we have to examine only those clauses of the peace treaties which are properly economic. During the half century preceding the war the trend had been toward an economic internationalism. But the strong nationalistic feeling of the period had interfered with this tendency and caused imperialism to predominate. The latter had proved to be a cause not only of rivalry but of antagonism between the great nations and had unfortunately done much to develop the megalomania that characterized the last decades of this period. To eliminate this dangerous element was then necessary in order to minimize the chances of a new conflict that might imperil our civilization. Did the conditions of peace attain this end?

In the famous fourteen points that President Wilson set forth as early as January, 1918, to be the directing principles of the peace to come, the third referred to the fundamental economic condition that peace ought

⁶⁷ Bernard M. Baruch, *op. cit.*, Introduction.

to realize. This was: "The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance." This desideratum aroused strong emotion in the United States itself. Was the President then contemplating the abandonment of the policy of free trade? He had to explain his meaning:

"I, of course, meant to suggest no restriction upon the free determination of any nation of its own economic policy, but only that whatever tariff any nation might deem necessary for its own economic service, be that tariff high or low, it should apply equally to all foreign nations; in other words, that there should be no discriminations against some nations that did not apply to others."

He wanted to see extended the application of the principle of equality of trade which had found expression in the Act of Berlin regulating the trade conditions in the Congo conventional basin, and which the United States had advocated in the Chinese Empire, in whose favor they had obtained its application by acquiescence of the other powers. Just as he desired military disarmament of the states, Mr. Wilson wished to deprive them of the means to use customs policies as a weapon:

"Weapons of economic discipline and punishment should be left to the joint action of all nations for the purpose of punishing those who will not submit to a general program of justice and equality."⁶⁸

⁶⁸ President Wilson to Senator Simmons, October, 1918, quoted in *A History of the Peace Conference in Paris*, edited by H. W. V. Temperley, 1921, Vol. V, p. 61.

And in his speech of September 27, the same year, in which he set forth the necessity for the creation of a League of Nations and the conditions of its establishment, he said:

“Special alliances and economic rivalries and hostilities have been the prolific source in the modern world of the plans and passions that produce war. It would be an insincere as well as an insecure peace that did not exclude them in definite and binding terms. . . . There can be no special, selfish economic combination within the league and no employment of any form of economic boycott or exclusion except as the power of economic penalty by exclusion from the markets of the world may be vested in the League of Nations itself as a means of discipline and control.”

These ideas appear in the Covenant of the League of Nations, which was incorporated at the request of President Wilson in the Versailles Treaty, forming its first part. It was to be, so the President thought, the keystone of the new edifice in the shelter of which humanity would henceforward be assured of peace. These ideas, however, do not occupy in the covenant that had awakened such glowing hopes, the place which their importance ought to have assigned them; they are lost among the political clauses. It seems as if the framers, lacking confidence in the possibility of putting them into practice, had not dared to make them prominent.

Economic boycott is adopted as the first measure to be taken against any member that violates the Covenant:

"Should any member of the League resort to war in disregard of its covenants under articles XII, XIII, or XV, it shall *ipso facto* be deemed to have committed an act of war against all other Members of the League, which hereby undertake immediately to subject it to the severance of all trade or financial relations, the prohibition of all intercourse between their nationals and the nationals of the covenant-breaking State, and the prevention of all financial, commercial, or personal intercourse between the nationals of the covenant-breaking State, and the nationals of any other State, whether a Member of the League or not . . ." (Article XVI.)

This threat, in a world where economic and financial interdependence of nations is so great, is serious, to be sure, but its strict application will be very difficult, and there will certainly be much trouble in obtaining compliance from particular interests to insure its execution.

Another article provides another weapon to be used against any recalcitrant member:

"Subject to and in accordance with the provisions of international conventions existing or hereafter to be agreed upon, the Members of the League . . . will make provision to secure and maintain freedom of communications and of transit and equitable treatment for the commerce of all Members of the League." (Article XXIII, e.)

The accomplishment of this desire remained doubtful; however, it is said that there was a tacit agreement to make an attempt to obtain it. When experts had gone into this question, its difficulty had quickly appeared to them. The American delegates had been

the first to draw up a proposal to apply the important principle of the equality of trade conditions. They had proposed at first to subject the commercial relations carried on between home countries and their colonies to the same rules as exist for international relations, including customs tariffs. This meant the prohibition of such differential duties as existed between the British Dominions and the United Kingdom, and between the United States and the Philippines or Cuba. Their own measure seemed to the Americans too radical to be accepted and they themselves proposed that, temporarily at least, present policies should continue to be tolerated; they also advised against prohibiting the forming of customs unions whether in Europe or in the American continents. These concessions, although necessary from the political point of view, emasculated the principle contained in Article XXIII. On the other hand, the French delegates asked that the covenant should provide for the conclusion of agreements

“to prohibit unfair competition in international trade, to take measures against dumping, and to levy neither export nor import duties on raw materials. The purpose of this last proposal . . . was to put an end, so far as possible, to international rivalries in the search for raw materials, to suppress many of the causes of the economic conflicts that endanger the world’s peace, and to offset the natural inequalities arising from the geographical distribution of resources.”⁶⁹

These demands, especially the one relative to raw materials, were highly justified, but their acceptance seemed very doubtful. To such difficulties is due the

⁶⁹ *A History of the Peace Conference in Paris, etc., Vol. V, p. 68 ff.*

vague wording of the article relative to this principle, the application of which, however, ought to be one of the most important purposes of the League of Nations if its members wish to do away with one of the most prolific causes of misunderstanding between nations. The creation of the mandates system for the administration of the former German colonies under the League's authority gave an opportunity to put into effect the principle of equality of trade conditions; nevertheless here again it was impossible to apply the principle rigorously, and the Covenant requires its strict observance only in regions such as Central Africa, where the mandatory is directly responsible to the League itself for the administration of the territories entrusted to it.

The progress realized toward greater equality of trade conditions is then negligible; moreover, some of the peace treaties, instead of facilitating its realization, have, on the contrary, made it more difficult.

"In one way," says Professor Allyn Abbott Young, one of the American experts, "it must frankly be admitted, the treaties framed at Paris create new 'economic barriers'. . . . Following, for the most part, lines of cleavage between nationalities, these boundaries cut across established channels of economic intercourse and sever territories that have been and remain economically dependent one on another. In part the old economic systems in Eastern Europe were artificial. Agriculture and industry had grown up inside of high tariff walls and had, perforce, found their markets very largely within those same walls. But if artificial, the old system of market relations was none the less real. It cannot suddenly be upset without a shock greater

than the new states, in their present weakened condition, can safely absorb. If the treaties had been drafted by a group of despots, irresponsible but benevolently inclined, some measure of compulsory economic co-operation on the part of the states of Eastern Europe might very easily have been insisted upon. But as things were, compulsory customs unions or similar arrangements were outside the field of possibilities. There was some fear, justified or not, that economic unions might pave the way to the reestablishment of the old political systems. But the real obstacle was the highly nationalistic attitude of the new states themselves, showing itself in an insistence on economic autonomy and independence. The best that could be done was to give the new states power to reduce or remove certain economic barriers in their own discretion."

But the very powers that were given them for that purpose were narrowly limited for political reasons. Thus

"these provisions are not adequate. . . . They afford a temporary and tentative solution. More permanent arrangements will have to be reached under the guidance of the League of Nations when the political situation in Eastern Europe makes such arrangements possible." ⁷⁰

Among the other clauses properly economic the most important are those relative to transit. There was unanimous agreement as to the principle to be applied here, namely that inland states must have free access to

⁷⁰ Allyn Abbott Young (Harvard University), economic adviser, American Peace Commission, "The Economic Settlement" in *What Really Happened at Paris*, 1921, edited by E. M. House and Charles Seymour, p. 315.

the sea. The principle was immediately applied in the new states constituted in Central Europe on the ruins of the Austro-Hungarian Empire. The Treaty of Versailles also laid down regulations covering international rivers, establishing thereby a régime which it considers merely temporary and which it hopes to see replaced in the future "by one to be laid down in a General Convention drawn up by the Allied and Associated Powers, and approved by the League of Nations, relating to the waterways recognized in such Convention as having an international character." (Article 338.)

The economic work of the Peace Conference was hindered by ideas too narrow as to the real interests of nations, by the resistance of private interests that dreaded the consequences of the adoption of certain measures, and by political considerations that in many cases originated more in sentimental conceptions than in clear-sighted observation of reality. "Many of the economic clauses of the treaty are parts of a temporary scaffolding set up to hold things in place until a more enduring structure can be erected." ⁷¹

Thus the Peace Conference was able to accomplish only a very imperfect task so far as concerns the economic relations between peoples, and it left intact the principal causes of disagreement and rivalry that unfortunately will always exert a dangerous influence on international political relations.

In spite of its vital failure here, the conference however attempted a bold experiment relative to the organization of labor. One of the foremost objects of the League as stated in the Covenant is that it "will

⁷¹ Allyn Abbott Young, *op. cit.*, p. 304.

endeavour to secure and maintain fair and humane conditions of labour for men, women, and children, both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organizations." (Article XXIII, a.)'

This is a continuation of the movement in the direction of international labor legislation that began during the last two decades before the war. Here in spite of the great difficulties the authors of the peace treaty showed no hesitation. A whole part of the Versailles Treaty, the thirteenth (Articles 387 to 427), is devoted to labor, and its preamble evinces the importance that its authors attached to it: "the League of Nations has for its object the establishment of universal peace, and such a peace can be established only if it is based upon social justice." It was nothing less than the establishment of this social justice that was assigned as the aim of an entirely new organization which the treaty created without waiting for the formation of the League of Nations.

To a real international labor parliament, composed of representatives of the governments, of employers, and of employees, is entrusted the study of those existing conditions of labor that, as the treaty says, "involve such injustice, hardship, and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperiled." By the side of the Assembly the International Labor Office was set up as one of the permanent institutions of the League of Nations; its functions include the collection of information on international labor questions

and the examination of subjects which are proposed for discussion in the General Conference. The latter, of course, has no executive power; when it has decided on the adoption of a proposal as an item in the agenda, it can only adopt either a "recommendation" submitted to the members of the League for consideration with a view to their acting on it individually by national legislation or otherwise, or it can draft an international convention for ratification by the members. Punitive measures of an economic character are, however, provided for, to be used by the powers against any government which fails to carry out a convention ratified by it or which within one year from the closing of the General Conference fails to bring its recommendations before the proper authority for the enactment of legislation. The details of this procedure will have to be fixed by the Permanent Court of International Justice. This procedure tends to create an authority superior to the states but they submit to it upon becoming members of the League of Nations.

The creation of this permanent organization for the consideration of labor questions is probably the most important innovation of the peace treaties. One of the men who participated in it and who has been appointed director of the International Labor Office, Albert Thomas, a former French minister and a socialist, thus expressed the aim of the men entrusted with the execution of this part of the treaty: "The intention of those who are responsible for the work of the Permanent Organization is rather to leave the beaten track of what Proudhon called 'the political hierarchy,' and to strike out on a new and independent path, confident in the

solidarity of economic forces of the world.”⁷² It is the recognition of one of the consequences of the economic transformations effected during the present period, but the application of this idea will require much caution. What dangers there would be in putting the new organization in conflict with that “political hierarchy” represented by the individual state governments, independent by virtue of their rights of sovereignty! Danger would be still greater if any attempt were made to impose social reforms for which, although in themselves desirable, there was not yet the economic foundation, or which public opinion was not yet prepared to accept. It would be perilous to awaken among workers hopes that later would have to be given up. If wisely directed, the young institution will be able to render important services, but its directors must know how to restrict themselves only to hasten general measures for which national habits are prepared and not endeavor to force into practice ideas which have nothing but theoretical reasoning to recommend them.

The League of Nations, imposed by the tenacity of Mr. Woodrow Wilson upon the Peace Conference, exists. It is much to be regretted that the American people should have refused to ratify the work of the man to whom by two successive elections they had entrusted the highest functions of the Republic and whom they had chosen as their representative in their relations with foreign powers. The adherence of the United States would have greatly increased the im-

⁷² Albert Thomas, “The Task of the International Labour Office,” in *Labour as an International Problem*, edited by E. John Solano, 1920, p. 249.

portance of the League of Nations and have facilitated the carrying out of the modest economic reforms which it has undertaken as its mission.

THE POST-WAR CRISIS

Two years had not gone by since the armistice when the apparent prosperity that had followed almost immediately after the hard times of the war suddenly came to an end. An acute economic and financial crisis broke out in the spring of 1920, and since then it has only developed in extent and grown in intensity. All nations feel its effects, even those that during the war and because of the war had experienced such a rapid increase in wealth. The first symptoms of the crisis appeared in Japan as a result of the excessive speculation in which her business men had indulged; but in all countries the exaggeration by governments and private persons of the means of credit had created an artificial situation that for only a short period masked the hard reality. The productive power of the world considered as a whole was considerably lessened by the heavy losses in men and by the abnormal consumption of capital during the four years of conflict and also by the default of Russia fallen into a state akin to barbarism and almost completely cut off from the civilized world.

The countries apparently enriched by the war because they had become the great creditors in the new world born of the war, are confronted with impoverished debtors compelled to ask long terms to fulfil their obligations. Moreover, these same countries, princi-

pally exporters of foodstuffs and raw materials, have for customers only such buyers as are compelled by the decrease of their buying powers to rest content with the minimum in spite of the importance of their needs.

The League of Nations at the end of 1920 called an international financial conference at Brussels, with the purpose in view of studying the world crisis and of looking for means to remedy or minimize its dangerous consequences. The conference brought together the representatives of thirty-nine countries, the United States having an unofficial delegate. Germany, Austria, Hungary, and Bulgaria were among those represented. These men, because almost all of them were engaged in the active economic life of their countries, were able to disregard political considerations and examine in complete independence of mind the vast problem submitted to them. They ended by voting unanimously a certain number of resolutions to be submitted to the statesmen of their various countries. Set forth by men who had honestly studied facts in their reality these resolutions were simple. A sincere peace, economy, and work, such were the only remedies that seemed to them effective in insuring a return to normal conditions in a disorganized world.

“The wealth of the world is made up of the products of men’s work, and the sum total of human prosperity can be increased only by an increase of production. All that official or organized action can do is to create conditions favorable to production. . . . Before everything else, the world needs peace. The Conference asserts, with all its conviction, that the first condition for the reestablishment of the world is a return to real

peace, the end of the wars that are still being fought, and the assurance of the maintenance of peace in the future."

Economy is no less requisite, economy on the part of private individuals as well as of governments. In an impoverished world it is impossible to preserve the same standard of living as that which before the war many years of continuous work had allowed us to attain. This general decrease in well-being is the unavoidable price to be paid by all the victims as well as the guilty, conquerors as well as conquered, for the terrible conflict that so long absorbed the very best of human activity, that cost so many lives, and that consumed such a large amount of wealth. Strenuous work is no less indispensable. It is only through hard, persistent work that production will be increased so as to make it possible to return to the degree of welfare lost for the time being and to reconstitute those powerful reserves without which modern civilization cannot long endure and the increase of which is the only means allowed us to make possible new progress. Labor unions must combat the nefarious tendency that has led them in the illusory hope of bettering the condition of their members to make rules whose effect is to limit their output; high wages may be demanded only for loyal work.⁷³

The world-wide scope of this crisis, which no country was able to escape, is a painful but patent manifestation of the close economic solidarity which in the

⁷³Concerning the international financial conference at Brussels (Sept. 24 to Oct. 8, 1920), see Federal Reserve Bulletin, Dec., 1920; *The Round Table*, Dec., 1920; Arthur Raffalovich, *Revue de Paris*, Jan. 1, 1921.

degree of civilization we have attained today binds all peoples together. Independent life is impossible in a world such as has been molded by the inventions of the last century. Thus it is only through effort undertaken in common, through broad and sincere collaboration, that human kind will be able to come out of the sad state in which it is today plunged. Unfortunately the very disasters caused by the crisis render such accord more difficult. The destruction of the regular trade currents that existed before the war, the extraordinary development given to industrial output in both belligerent and neutral countries to satisfy war needs, the crushing weight of taxation, the difficulties caused by paper money, which has grown to be a real scourge in some countries, these are some of the problems now troubling the world. In such a complex situation, where it is impossible to make forecasts even of the near future with some sort of certainty, everyone endeavors to strengthen his own interests. Farmers and industrials in all countries are asking their governments to protect them against foreign competition. They find support in the natural desire of each country, in order to secure national security, to fortify or acclimatize at home the fundamental war industries, the inadequacy or lack of which would place it at the mercy of an ambitious adversary. Instead of opening themselves to trade relations, frontiers are being closed; all countries see increasing their import duties; even in England the wish to support key industries is bringing about a breakdown of the principle of free trade. After military war, which has barely come to an end, there succeed wars of tariff.

Should the peoples persevere too long in such a state of mind, the restoration of economic equilibrium and the return to prosperity will be dangerously delayed and may even be seriously jeopardized. It is important also that America should not persist in her attitude of isolation toward European questions; without her participation the other nations will find their efforts paralyzed; and America herself will not be free from danger. "Europe is her greatest customer, her greatest purchaser of grains, cotton, copper, and all other raw materials. If our own industry and commerce are to be restored, if we are to get back to former prosperity, then, indeed, must we lend our own efforts to European restoration."⁷⁴ And in his first message to Congress President Harding declared that, if the United States does not wish to enter the League: "In the existing League of Nations, world governing with its superpowers, this Republic will have no part," it will not, however, refuse to seek means to collaborate in the work for peace with the other peoples:

"International association for permanent peace must be conceived solely as an instrumentality of justice, unassociated with the passions of yesterday, and not so constituted as to attempt the dual functions of a political instrument of the conquerors and of an agency of peace. . . . We wish [the new association of nations] to be conceived in peace and dedicated to peace, and will relinquish no effort to bring the nations of the world into such fellowship not in the surrender of national sovereignty but rejoicing in a nobler exer-

⁷⁴ Thomas William Lamont, economic adviser, American Peace Commission, "Reparations," in *What Really Happened at Paris*, edited by E. M. House and Charles Seymour, p. 289.

cise of it in the advancement of human activities, amid the compensations of peaceful achievement." ⁷⁵

Let us hope that these wise counsels will not take long to materialize; only an intelligent and persevering cooperation by all the peoples of the world will conjure away the peril that threatens our civilization.

⁷⁵ Message to Congress, April 12, 1921.

CONCLUSION

IMPERIALISM OR ECONOMIC INTERNATIONALISM?

WHAT judgment is to be passed in the period that immediately preceded the Great War? What can it teach us?

The nineteenth century was an unparalleled epoch for scientific progress; from the middle of the century inventions and discoveries increased by leaps and bounds in every department of science. The application of these to practical ends with ever closer cooperation between scientists, on the one hand, and industrials and agriculturists, on the other, revolutionized the economic world. From this point of view between the world of the close of the eighteenth century and that of the early twentieth the differences were so considerable it seems astonishing that these transformations could have taken place within the short time of scarcely three generations. The changes were so manifold, so far-reaching, and above all so rapid, that too few as yet understand their full importance. The unavoidable consequences that must follow in social life as a whole, but more particularly in the relations between nations, are but dimly perceived by public opinion even among the most advanced peoples.

The great current of emigration from the countries

of Northern and Western Europe, then of Eastern and Southern Europe, that continued uninterrupted and in ever increasing number after the middle of the nineteenth century, worked for the good of the whole world. It allowed the rapid development of new lands in the temperate zone, a development which would have been very slow if it had depended only on the labor provided by the descendants of the first colonists and by such a small inflow of immigrants as that of the early nineteenth century. Had it not been for the increased output of foodstuffs and raw materials from these territories, the industrialization of the nations of Western and Central Europe, pursued with such intensity during the last quarter of the century, would have been greatly handicapped. The revival of colonial expansion that was manifested about the same time likewise contributed to the general increase of wealth through the exploitation of the tropical lands hitherto neglected, whence man has been able to get new products for his sustenance and for his industries. Then in the later years of the century the abundance of capital among the industrial nations allowed them, while continuing to help the new lands, to turn their endeavor toward the countries of the Far East, now easily reached, with the result that modernization was hastened in their economic life. All this part of the work of the nineteenth century was a magnificent success. Its ultimate consequence was an important increase of the white population and also, in the greater part of the tropical lands exploited by it, an increase of the native races, paralleled by a very notable betterment of welfare in all countries.

The most important result of the economic transformation of the nineteenth century, from the point of view of international politics, is that it made impossible an independent life for civilized nations. At the close of the eighteenth century a nation of any extent was still able to live on itself; it asked from abroad only such commodities as had a character of luxury. Nowadays an important curtailment of exchanges between nations would seriously jeopardize the well-being of their citizens, would unbalance their economic system, and would endanger their political stability. The economic and financial interests of all nations are so closely bound together that a crisis of any importance breaking out in one of them has almost immediately its repercussion in the others. Our world now lives an economic life that flows over the political frontiers; and this economic integration that has developed since the beginning of the second half of the nineteenth century with ever increasing speed is one of the principal causes of the great social betterment that has come to the world as a whole.

This, the most significant fact of the economic life of our times, however, has had hitherto but a very slight influence on international politics. While the new inventions have tended to reduce the obstacle of distance, to make the peoples more and more dependent on each other, in a word to internationalize economic life, national sentiment has fostered political independence and tended to make each nation endeavor to fit itself to live an independent life. This antagonism between sentiment and facts is the dominant feature of the general history of the last half century; it has

helped to intensify among the peoples a dangerous spirit of insecurity, it has developed the aggressive character of national feeling and given birth to economic imperialism.

Nevertheless some concessions had to be made to facts. Commercial treaties have toned down the exaggerations of protectionistic policies, which result from too ardent nationalism, urged on by the many special interests for whom protection was a source of particular profits. International conventions have been concluded for protecting interests of an international character or for facilitating the use of some of the new inventions. Finally at the time of the competition over the partition of Africa and later when there came the clash of imperialism in the Far East, diplomatic solutions were found which avoided the threatened conflicts. Always, however, the dominant motive of each nation has been to secure as large an amount as possible of economic independence. The fact that all the nations of the world are to so great an extent economically interdependent has made but slow progress in men's minds.

The universal crisis that broke out at the beginning of the Great War, the necessity that imposed itself upon the belligerents of pooling their resources in order to carry on the fighting, the situation in which the whole world finds itself now that the frightful cataclysm is over, these are all evidences of the economic interdependence that binds all nations today. Henceforth who among thinking men can pretend not to know this fact or to dispute its importance?

Nothing less than a broad and universal conception

of this solidarity of the world can lead to a reconstitution of the economic system which before the war had created an international community. No people can afford to stand aside from this work; one nation's aloofness will delay its realization and of this delay the obstructionist nation itself will be a sufferer. It is essential to reestablish at the earliest date the regular currents of exchanges, so deeply disturbed since August, 1914, and to make it possible for credit, the principal prop of the economic system of our times, to fulfil again the complex and extensive part that devolves upon it. For this two conditions are indispensable: confidence in the future, which will come only if there is a feeling of certainty that peace is established for a long period, and the return to traditions of loyal work and trade.

In the period that preceded the war national feeling found itself in antagonism with economic tendencies. The principal cause of this disagreement was the lack of security in political relations, a lack of security that had come to be still further enhanced by the industrialization carried so far by some great powers. Economic imperialism, the logical sequence of traditional national economic policies had appeared to these powers as the necessary safeguard against the dangers involved in their overindustrialization. The lack of equilibrium in their economic systems made the risks of an acute economic crisis very grave while at the same time it increased the difficulties in which they would be in case of a conflict with rival nations.

Are we to see, now that the war is over, economic imperialism continued, perhaps intensified? It is a

dangerous eventuality. For the present at least over-excited national feelings tend clearly in that direction. Each nation appears to be sparing no efforts to make itself as nearly independent economically as possible. Each intends to establish at home, whatever the cost, at least the industries considered fundamental in case of war. In a world where peace offers but an insecure outlook such feelings are natural; whatever the strength of economic tendencies, they cannot prevail against these feelings. It is for us to wish and hope that, with the return of normal conditions and of confidence in the continuity of peace, such feelings will subside and that it will be possible to bring the peoples to understand the necessity, if a continuation of peace is to be made secure and the new scientific discoveries utilized to the full, of resuming and extending the movement of economic internationalism which was begun during the preceding period and which imperialism had held in check.

World-wide free trade is perhaps too ideal an aim, but the adoption of a general policy of moderate protection would facilitate the development of an ever closer community of interests between nations, and would eliminate a cause of serious disagreements between them. It would also bring us nearer to a universal adoption of the principle of commercial equality for all, which has already been tried on a small scale in the Congo basin and in China.

The cosmopolitan character being assumed more and more by great industries, the understandings that will continue to increase in number between enterprises of the same kind and of different nationalities, will

tend to develop this international economic community which does not take political frontiers into account. Can the governments ignore this? How imprudent it would be for them to persist in a narrow nationalistic policy in opposition to a movement that they may impede but that it would be idle for them to attempt to stop.

However, there must be an end to the present uncertainty as to the future before we can hope to see economic internationalism supplant imperialism. This highly desirable result will become possible only when the peoples can at last be confident of a long-continued period of peace. Let us hope that the terrible lessons of the Great War will not be lost, and that the present troublous period, although so natural after such a tremendous upheaval, will soon be over and that reestablishment will not be too long in coming. Let us hope. Let us not, however, be too optimistic; we must not forget that it is not reason but passions that most often determine the policies of peoples.⁷⁶

⁷⁶ Since these lectures were given in August, 1921, the conference called by the United States for disarmament has been held in Washington (Nov. 11, 1921—Feb. 6, 1922). This conference that aimed also at finding a solution to the Chinese question had important results.

First of all, by the treaty of limitation of naval armaments signed by five powers (United States, Great Britain, Japan, France, and Italy), it imposed a curtailment, which one would vain hope final and not merely temporary, upon the mad and ruinous race participated in by the great powers during the quarter of a century that preceded the Great War. This will have some significant results.

Great Britain, by her acceptance of the basis called "one-power standard," relinquishes for the future all idea of the preservation of that unchallenged naval supremacy that was during more than a half century the foundation of her foreign policy, and thereby acknowledges her incapacity to continue it. The United States, by agreeing not to use its possessions in the Pacific save Hawaii as naval bases, and by creating a neutral maritime zone between itself and Japan,

acknowledges that, because of its geographical situation it cannot compel Japan by force to respect the principles of the open door in China and of its political integrity (Treaty of the Pacific, or Four Power Treaty, signed by the United States, Great Britain, Japan and France). It must be remembered that only under conditions made possible by these principles can American manufacturers and merchants compete on terms of equality in China. Nor is this the only way in which the Japanese at Washington greatly improved their international situation. Although their treaty of alliance with Great Britain was abrogated, they treated on a footing of full equality concerning the Pacific question with the three great world powers of the West, and concerning the limitation of armaments they pledged themselves with four of the Western powers. As to the Chinese question they treated with all the powers having interests in China (the Nine Power Treaty: United States, Great Britain, Japan, France, Italy, China, Belgium, Portugal, and Holland). Since the United States abandons all idea of a struggle in the Pacific and since the other powers will long be unable to make war in the distant Far East, it is on Japan's word alone that the Western powers put their trust for the respect of the principles which the treaty signatories consider to be the basis in the future for the relations of all nations with China.

These principles as set forth in Article I of the Nine Power Treaty are: (1) to respect the sovereignty, the independence, and the territorial and administrative integrity of China; (2) to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government; (3) to use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China; (4) to refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of subjects or citizens of friendly States, and from countenancing action inimical to the security of such States.—What policy will Japan adopt? That is the question which confronts one at the close of the Washington Conference. See Achille Viallate, "La Conférence de Washington" in *L'Economiste français*, April 15 and 29, 1922.

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